

*In the opinion of Bond Counsel and the Attorney General of the State of Michigan, subject to compliance with certain covenants, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes except as described under "TAX MATTERS" herein, and the Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof except for estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See "TAX MATTERS" herein.*

**\$6,950,000**

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY  
LIMITED OBLIGATION REVENUE BONDS  
(MICHIGAN TECHNICAL ACADEMY PROJECT), SERIES 2006**

**Dated: Date of Delivery**

**Due: February 1, as shown on inside cover**

The Limited Obligation Revenue Bonds (Michigan Technical Academy Project), Series 2006 (the "Bonds") will be issued by the Michigan Public Educational Facilities Authority (the "Authority") as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form, in denominations of \$100,000, or any integral multiple of \$5,000 in excess thereof and purchasers will not receive physical certificates representing the ownership interest in the Bonds purchased by them. See "THE BONDS – Book-Entry-Only System."

The Bonds will be issued under and pursuant to a Trust Indenture ("Indenture") dated as of February 1, 2006 between J.P. Morgan Trust Company, National Association, Detroit, Michigan (the "Trustee") and the Authority. The Bonds are being issued to assist the Academy in financing the acquisition of certain real property and a public school academy facility located in Redford, Michigan (the "Facility"), and certain personal property and equipment to be located on the Academy's campuses in Redford and Detroit, Michigan (the "Equipment") (collectively, the Facility and the Equipment are referred to as the "Project"). The Authority will purchase the right to receive Installment Payments, Additional Payments and Reserve Fund Payments and to exercise remedies under the Installment Purchase Financing Agreement (the "Financing Agreement") by which the Academy will finance the acquisition and equipping of the Project. Proceeds of the Bonds will be used to acquire the Project from ACME Properties Group, LLC ("ACME") and the Bonds will be secured by a Mortgage dated as of February 1, 2006 (the "Mortgage") with respect to the Facility and improvements thereon assumed by the Academy from ACME and a Security Agreement dated as of February 1, 2006 with respect to the personal property and equipment financed with the proceeds of the Bonds, all for the benefit of the Trustee. The Bonds are further secured by an assignment made by the Academy in the Financing Agreement of ninety-seven percent (97%) of the State School Aid (as defined herein) to be received by the Academy in each fiscal year from the State of Michigan. Pursuant to the State Aid Agreement dated as of February 1, 2006 (the "State Aid Agreement"), by and among the Academy, the State Treasurer of the State of Michigan, the Trustee, the Central Michigan University Board of Trustees, fiscal agent for the Academy, and the Authority, the Academy has directed that ninety-seven percent (97%) of the State School Aid funds to be received by the Academy in each fiscal year from the State of Michigan be paid directly to the Trustee; provided, however, that not more than 20% of the State School Aid funds to be received by the Academy for such fiscal year may be used to make payments on the Bonds and any additional bonds issued under the Indenture.

Interest on the Bonds will accrue from the date of delivery and will be payable semi-annually on each February 1 and August 1, commencing August 1, 2006. Principal of and interest on the Bonds will be paid by the corporate trust office of the Trustee. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, such payments will be made directly to DTC or such nominee. Disbursements of such payments to the Direct Participants are the responsibility of DTC, and disbursements of such payments to the beneficial owners are the responsibility of the Direct Participants and the Indirect Participants, as more fully described herein.

The Bonds are subject to optional redemption beginning February 1, 2016 and mandatory redemption as described herein. See "THE BONDS – Redemption of the Bonds Prior to Maturity" herein.

THE BONDS ARE PAYABLE SOLELY FROM THE ACADEMY'S PAYMENTS UNDER A CERTAIN INSTALLMENT PURCHASE FINANCING AGREEMENT AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY FOR EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE INSTALLMENT PAYMENTS AND OTHER PAYMENTS UNDER THE FINANCING AGREEMENT. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE OF MICHIGAN (THE "STATE"), THE CENTRAL MICHIGAN UNIVERSITY BOARD OF TRUSTEES (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, THE CENTRAL MICHIGAN UNIVERSITY BOARD OF TRUSTEES OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE AUTHORITY HAS NO TAXING POWER. SEE "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" AND "RISK FACTORS" HEREIN.

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption "RISK FACTORS" herein.**

The Bonds are offered when, as and if issued by the Authority and received and accepted by the Underwriter and subject to the approval of legality by Dickinson Wright PLLC, Bloomfield Hills, Michigan, Bond Counsel, and the Attorney General of the State of Michigan, and certain other conditions. Certain legal matters will be passed upon by Dickinson Wright PLLC, Bloomfield Hills, Michigan, as counsel to the Academy and by Collins & Blaha, P.C., Farmington Hills, Michigan, as Underwriter's Counsel. It is expected that the Bonds in book-entry form will be available for delivery against payment therefor on or about February 14, 2006.

**NatCity Investments, Inc.**

The date of this Official Statement is February 8, 2006

## MATURITY SCHEDULE

\$ 1,040,000.00 Term Bonds Due February 1, 2016; Interest Rate 6.000%; Yield 6.050%; CUSIP 594569AV7

\$ 2,055,000.00 Term Bonds Due February 1, 2026; Interest Rate 6.375%; Yield 6.480%; CUSIP 594569AX3

\$ 3,855,000.00 Term Bonds Due February 1, 2036; Interest Rate 6.500%; Yield 6.670%; CUSIP 594569AY1

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Academy or the Underwriter to give any information or to make any representation with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy and, there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The descriptions of the documents in the Official Statement are summaries thereof and reference is made to the actual documents for a complete understanding of the contents of such documents.

The Trustee assumes no responsibilities for this Official Statement and has not reviewed or undertaken to verify any information contained herein.

IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE AUTHORITY (WITH RESPECT TO THE INFORMATION UNDER THE CAPTION "THE AUTHORITY" ONLY), THE ACADEMY, DTC AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY AND COMPLETENESS, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE UNDERWRITER. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

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## **OFFICIAL STATEMENT**

**\$6,950,000**

### **MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY LIMITED OBLIGATION REVENUE BONDS (MICHIGAN TECHNICAL ACADEMY PROJECT), SERIES 2006**

#### **INTRODUCTION**

This Official Statement (including the cover page and Exhibits) is provided to furnish information in connection with the issuance and sale by the Michigan Public Educational Facilities Authority (the "Authority") of its Limited Obligation Revenue Bonds (Michigan Technical Academy Project), Series 2006 in the aggregate principal amount of \$6,950,000.00 (the "Bonds"). The Bonds will be limited obligations of the Authority as described under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein.

The Bonds will be issued under a Trust Indenture, dated as of February 1, 2006 (the "Indenture"), between the Authority and J.P. Morgan Trust Company, National Association, as Trustee (the "Trustee"). The proceeds of the Bonds will be used as described below under the caption "THE PROJECT."

The Michigan Technical Academy (the "Academy") will finance the acquisition of the Project (as defined below) pursuant to the terms of an Installment Purchase Financing Agreement dated as of February 1, 2006 ("Financing Agreement") among the Authority, the Academy, and ACME Properties Group, LLC ("ACME"), by fully paying the outstanding balance of a certain land contract and certain equipment leases between the Academy and ACME and funding the purchase of certain personal property. In consideration for payment in full of the land contract with the proceeds of the Bonds, ACME will convey title to the real property portion of the Project and certain personal property and equipment to the Academy. The real property and improvements thereon shall be conveyed by ACME subject to a mortgage in favor of the Trustee, which mortgage the Academy shall assume (as assumed, the "Mortgage"). The Academy will enter into a Security Agreement dated as of February 1, 2006 (the "Security Agreement") in favor of the Trustee, granting to the Trustee a first priority security interest in the personal property and equipment financed with the proceeds of the Bonds.

The Academy's installment payments assigned to the Authority under the Financing Agreement (the "Installment Payments") will be sufficient to pay the principal of, premium, if any and interest on the Bonds when due.

In order to ensure that the Academy will meet its obligations under the Installment Purchase Financing Agreement, the Academy has assigned to the Trustee a portion (not exceeding ninety-seven percent (97%)) of the funds to be received by the Academy from the State of Michigan pursuant to the operation of the State School Aid Act of 1979, Michigan Compiled Laws Section 388.1601, et seq., as amended, ("State School Aid"). Pursuant to the State Aid Agreement (the "State Aid Agreement") dated as of February 1, 2006, by and among the Academy, the Trustee, the Authority, the Central Michigan University Board of Trustees, as authorizing body and fiscal agent (the "Authorizing Body") for the Academy, and the State Treasurer of the State of Michigan (the "State Treasurer"), ninety-seven percent (97%) of the State School Aid funds to be received by the Academy in each fiscal year from the State of Michigan shall be paid directly to the Trustee; provided, however, the amount of State School Aid funds used to make payments on the Bonds and any additional bonds issued under the Indenture may not exceed twenty percent (20%) of the State School Aid funds to be received by the Academy for such fiscal year. The pledged State School Aid funds are to be used to pay the Academy's obligations under the Financing Agreement. The Bonds are further secured by the Mortgage and the Security Agreement.

For the definition of certain words and terms used in this Official Statement, see "EXHIBIT D – SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS."

## **THE PROJECT**

The proceeds of the Bonds will be used to finance the Project, which will consist of: (a) the acquisition of the real property and an approximately 56,000 sq. ft. newly renovated and expanded building located at 23750 Elmira, Redford, Michigan to be used by the Academy as a public school academy facility (the "Facility"); and (b) the acquisition and installation of personal property and equipment to be used at the Facility and at other Academy campuses located at 19990 Evergreen, Detroit, Michigan; 19940 Mansfield, Detroit, Michigan; and 19780 Meyers, Detroit, Michigan (the "Equipment").

The Project will be owned and operated by the Academy as a public school academy, except for a 9,965 sq. ft. portion of the building located on the Facility which will be leased to Judson Center, Inc., a Michigan nonprofit corporation, for a lease term expiring December 31, 2006, which may be renewed at the Academy's option.

The proceeds of the Bonds will also be used to finance (a) a deposit to the Reserve Fund for the Bonds; (b) a deposit to the Bond Fund to pay capitalized interest on the Bonds; (c) working capital expenses, other than Costs of Issuance and capitalized interest, that do not exceed five percent (5%) of the sale proceeds of the Bonds and that are directly related to capital expenditures financed by the Bonds (e.g. initial operating expenses for the Project); and (d) costs of issuance related to the Bonds (collectively the "Project Costs").

THE BONDS ARE PAYABLE SOLELY FROM THE ACADEMY'S ASSIGNED INSTALLMENT PAYMENTS, ADDITIONAL PAYMENTS, AND RESERVE FUND PAYMENTS UNDER THE FINANCING AGREEMENT AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY (20%) PERCENT OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY FOR EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE INSTALLMENT PAYMENTS, ADDITIONAL PAYMENTS, AND RESERVE FUND PAYMENTS UNDER THE FINANCING AGREEMENT. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE OF MICHIGAN, THE CENTRAL MICHIGAN UNIVERSITY BOARD OF TRUSTEES (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF MICHIGAN, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE OF MICHIGAN, THE CENTRAL MICHIGAN UNIVERSITY BOARD OF TRUSTEES OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE AUTHORITY HAS NO TAXING POWER. SEE "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" AND "RISK FACTORS" HEREIN.



## THE AUTHORITY

The Authority is a public body corporate and politic of the State of Michigan (the “State”), created by Executive Order 2002-3, compiled at §12.192 of the Michigan Compiled Laws, and is housed within the Michigan Department of Treasury. The Authority was established for, among other purposes, the purpose of lending money to public school academies within the State for financing or refinancing the acquisition, construction and equipping of public school facilities and for other purposes. In order to effectuate such purposes, the Authority is authorized to issue its bonds or notes and to make money available to public school academies by the purchase of, among other things, financing agreements or making loans to a nonprofit corporation for the benefit of a public school academy.

The Authority is governed by a Board of Trustees (the “Board”). The members of the Board are appointed by the Governor of the State with the advice and consent of the State Senate. The members serve for various terms and continue to serve until successors are appointed and file the oath of office. The members of the Board are:

Ganesh V. Reddy, Chairperson	Director of Business Development-Government HTC Global Services, Inc. Troy, Michigan
Mark J. Burzych	Partner Foster, Swift, Collins & Smith, P.C. Lansing, Michigan
Timothy A. Hoffman	Director of Regulatory Affairs Consumers Energy Lansing, Michigan
David S. Mittleman	Partner Church, Kritselis & Wyble, P.C. Lansing, Michigan
Jay B. Rising	State Treasurer Lansing, Michigan

The Indenture provides that the covenants, stipulations, promises, agreements and obligations of the Authority contained in the Indenture are those of the Authority and not of any member of the Board or any officer or employee of the Authority in his or her individual capacity and that no recourse shall be had for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or on the Indenture against any member of the Board, any officer or employee of the Authority or any person executing the Bonds.

The Authority is housed within the State Department of Treasury but exercises its statutory functions independently of the State Treasurer. The Authority’s address is Richard H. Austin State Office Building, 430 West Allegan Street, Lansing, Michigan 48922, and its telephone number is (517) 335-0994.

The Executive Director of the Authority is Thomas J. Letavis.

The Bonds are limited obligations of the Authority as described in this Official Statement. The Authority is not generally liable on the Bonds or on any other obligation incurred by the Authority under the Indenture or the Financing Agreement. The Bonds are not general obligations and do not constitute debts or pledges against the general credit of the Authority or the credit or taxing power of the State. The Bonds are limited obligations of the Authority, which will, if and when issued, be payable solely through revenues, properties or other funds as described in this Official Statement, the Indenture and the Financing Agreement. No owner of any Bond shall have the right to demand payment of the principal of, premium, if any, or interest on such Bond out of any funds to be raised by taxation. The Authority has no taxing power.

The Authority has not prepared any material for inclusion in this Official Statement except the matters under the heading "THE AUTHORITY." The distribution of this Official Statement has been duly approved and authorized by the Authority. Such approval and authorization do not, however, constitute a representation of approval by the Authority of the accuracy or sufficiency of any information contained herein except to the extent of the information contained in this Section.

## **THE ACADEMY**

The Academy is a public school academy operating as a Michigan non-profit corporation and a governmental agency of the State of Michigan, organized pursuant to Part 6A of Chapter 380 of the Michigan Revised School Code (the "School Code"), Michigan Compiled Laws ("M.C.L.") § 380.501 et. seq. and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. § 450.2101 et. seq.

### **Campuses**

The Academy was founded in 1995 and currently serves grades K through 12 in the following site configurations:

The Academy's grades K through 8 currently operate in three buildings. The lower elementary campus is designated and authorized to operate grades K through 2 at 19900 Evergreen Road, Detroit, MI 48219. The facility consists of approximately 27,417 square feet.

The upper elementary serves grades 3 through 5 and is located at 19940 Mansfield, Detroit, MI 48235. The facility consists of approximately 41,472 square feet.

The middle school serves grades 6 through 8 and is located at 19780 Meyers, Detroit, MI 48235. The facility consists of approximately 11,000 square feet.

Currently, the high school operates from a leased facility located at 28675 Northline Road, Romulus, MI 48174 (the "Current High School Facility"). The Current High School Facility consists of a 17,000 square foot industrial building, configured to house an auto bay, three auto areas, four classrooms, conference and office space situated on 1.93 acres of real property. The Current High School Facility also includes a modular classroom building of approximately 1,030 square feet, located on the property.

The Academy expects to relocate its high school to the Facility in mid-February, 2006.

### **Mission**

The mission of the Academy is as follows:

**Kindergarten to Eighth Grade:** The mission of the Academy's Kindergarten through Eighth grade campuses is to provide a nurturing, structured environment, where all students will be empowered through a well-rounded education, emphasizing academic excellence, social skills, and moral character.

**High School:** The mission of the Academy's High School is to provide a learning environment in which all students will be challenged to reach their potential as involved citizens and life-long learners and to develop the academic, mechanical, and life skills necessary to successfully compete in and contribute to the diverse global workplace with an emphasis on automotive technology.

For additional information regarding the Academy, see "EXHIBIT A – MICHIGAN TECHNICAL ACADEMY."

## USE OF PROCEEDS

The sources and uses of funds to pay for the Project and Project Costs are estimated to be as follows:

### Sources of Funds:

#### Bond Proceeds

Par Amount	\$ 6,950,000.00
Net Original Discount	<u>(112,609.45)</u>
Total Sources:	\$ 6,837,390.55

### Uses of Funds:

Purchase of Financing Agreement	5,793,333.79
Capitalized Interest	205,957.97
Reserve Fund Deposit	538,700.00
Costs of Issuance	160,398.79
Underwriter's Discount	<u>139,000.00</u>
Total Uses	\$ 6,837,390.55

## THE BONDS

### General

The Bonds will be issuable as fully registered bonds without coupons in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof (the "Authorized Denominations"). The Bonds will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement, subject to redemption prior to maturity, and will bear interest until paid at the rates shown on the inside cover page of this Official Statement, payable semi-annually on February 1 and August 1 of each year, commencing on August 1, 2006 (each an "Interest Payment Date").

Interest on the Bonds is computed on the basis of a 360-day year comprised of twelve 30-day months. Payments of principal of and premium, if any, with respect to the Bonds will be made upon surrender of the Bonds at the office of the Trustee. Payments of interest on the Bonds will be made by check or draft mailed on or before each Interest Payment Date to the registered owner thereof as of the Record Date at his or her address as it last appears on the registration books of the Trustee irrespective of any transfer or exchange of the Bonds subsequent to the Record Date and prior to such Interest Payment Date. The "Record Date" means the 15th day of the calendar month immediately preceding any Interest Payment Date, or as otherwise specified in a Indenture.

### Redemption of Bonds Prior to Maturity

#### *Optional Redemption*

The Bonds are subject to redemption at the option of the Authority, as directed in writing by the Academy, in whole or in part at any time on or after February 1, 2016 (and if in part in multiples of \$5,000; provided that no

Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) and in such order of maturity as the Academy shall direct at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest to the date of redemption.

***Mandatory Redemption***

The Bonds maturing February 1, 2016 are subject to mandatory sinking fund redemption on February 1, 2008 and on each February 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date as follows:

**Term Bonds Maturing  
February 1, 2016**

<b>Date</b>	<b>Principal Amount</b>
February 1, 2008	\$90,000
February 1, 2009	95,000
February 1, 2010	100,000
February 1, 2011	110,000
February 1, 2012	115,000
February 1, 2013	120,000
February 1, 2014	130,000
February 1, 2015	135,000
February 1, 2016*	145,000
*Maturity Date	

The Bonds maturing February 1, 2026, are subject to mandatory sinking fund redemption on February 1, 2017, and on each February 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date as follows:

**Term Bonds Maturing  
February 1, 2026**

<b>Date</b>	<b>Principal Amount</b>
February 1, 2017	\$150,000
February 1, 2018	165,000
February 1, 2019	175,000
February 1, 2020	185,000
February 1, 2021	195,000
February 1, 2022	210,000
February 1, 2023	220,000
February 1, 2024	235,000
February 1, 2025	250,000
February 1, 2026*	270,000
*Maturity Date	

The Bonds maturing February 1, 2036, are subject to mandatory sinking fund redemption on February 1, 2027, and on each February 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date as follows:

**Term Bonds Maturing  
February 1, 2036**

<b>Date</b>	<b>Principal Amount</b>
February 1, 2027	\$285,000
February 1, 2028	305,000
February 1, 2029	325,000
February 1, 2030	345,000
February 1, 2031	370,000
February 1, 2032	390,000
February 1, 2033	415,000
February 1, 2034	440,000
February 1, 2035	475,000
February 1, 2036*	505,000

\*Maturity Date

***Extraordinary Redemption***

The Bonds are subject to extraordinary redemption at the option of the Authority, in whole or in part at any time (and if in part in multiples of \$5,000; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) on any date for which notice of redemption can be given, in any order of maturity as determined by the Authority, at the redemption price equal to 100% of the principal amount to be redeemed plus accrued interest to the date of redemption, from any funds constituting insurance or condemnation proceeds deposited in the Bond Fund in accordance with the Financing Agreement.

***Mandatory Redemption Upon Determination of Taxability***

The Bonds are subject to mandatory redemption prior to maturity, as a whole and not in part, on the earliest practicable date for which notice can be given following the occurrence of a Determination of Taxability at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

“Determination of Taxability” means a determination that the interest income on any of the Bonds is included in gross income for federal income tax purposes, which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

(a) the day on which the Academy is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that, based upon any filings of the Academy, or upon any review or audit of the Academy, or upon any other grounds whatsoever, the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner thereof;

(b) the day on which the Academy receives notice from the Trustee in writing that the Trustee has been advised in writing by any current or former holder or Beneficial Owner of a Bond that the Internal Revenue Service has issued a statutory notice of deficiency or similar notice to such current or former holder or Beneficial Owner which asserts in effect that the interest on the Bonds received by such current or former holder or Beneficial Owner is includable for federal income tax purposes in the gross income of such current or former holder or Beneficial Owner;

(c) the day on which the Academy is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that there has been issued a public or private ruling of the Internal Revenue Service

or a technical advice memorandum issued by the national office of the Internal Revenue Service that the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond;

(d) the day on which the Academy is advised in writing that a final determination, from which no further right of appeal exists, has been made by a court of competent jurisdiction in the United States of America in a proceeding with respect to which the Academy has been given written notice and an opportunity to participate and defend that the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond; or

(e) the date specified in a written opinion to the Academy from Bond Counsel as the day on which interest on the Bonds first became or will become includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond;

provided, however, no Determination of Taxability shall occur under subparagraph (a), (b) or (c) of this paragraph unless the Academy has been afforded the opportunity, at its expense, to contest any such conclusion and/or assessment after furnishing the Trustee and the Authority, within 30 days after the occurrence of an event described in subparagraph (a), (b) or (c) of this paragraph, with an opinion of a firm of nationally recognized attorneys at law acceptable to the Authority and experienced in legal work relating to the issuance of bonds the interest on which is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended to the effect that there is a reasonable likelihood that the Academy will prevail in such contest, and, further, no Determination of Taxability shall occur until such contest, if made, has been finally determined. The Academy shall promptly notify the Trustee and the Authority of any event described in subparagraph (a), (c), (d) or (e) of this paragraph and shall further promptly notify the Trustee and the Authority of any final determination if the Academy has contested under subparagraph (a), (b) or (c) of this paragraph. The Academy shall be deemed to have been afforded the opportunity to contest the occurrence of a Determination of Taxability if it shall have been permitted to commence and maintain any action in the name of any current or former holder or Beneficial Owner of a Bond to judgment and through any appeals therefrom or other proceedings related thereto.

#### ***Notices of Redemption***

Notice of redemption shall be given by the Trustee at least thirty (30) days prior to the date fixed for redemption by mail to the registered owner or owners at the registered addresses shown on the registration books kept by the Trustee. Failure of any owner to receive such notice shall not affect the redemption proceedings. No further interest on the Bonds or portions of Bonds called for redemption shall accrue after the date fixed for redemption, whether such Bonds are presented for redemption or not, provided funds are on hand with the Trustee to redeem the same.

#### ***Partial Redemption***

If less than all the Outstanding Bonds of any maturity are called for redemption, the Trustee shall select, or arrange for the selection of, the Bonds of such maturity to be redeemed by lot, in such manner as it shall in its discretion determine; provided that any such Bonds selected for redemption shall be in multiples of \$5,000 and no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination. If less than the principal amount of a Bond is called for redemption, the Authority shall execute and the Trustee shall authenticate and deliver, upon surrender of such Bond, without charge to the holder thereof, in exchange for the unredeemed principal amount of such Bond, at the option of such holder, Bonds in any of the Authorized Denominations.

#### **Book-Entry-Only System**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate in typewritten form will be issued for each stated maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO BONDHOLDERS, HOLDERS OR

OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Academy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participant's accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository); in that event, the Bond certificates will be printed and delivered to the Participants for delivery to the Beneficial Owners. The information in this section concerning DTC and DTC's book entry system has been obtained from sources that the Authority believes to be reliable, but the Authority assumes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY, THE ACADEMY, THE TRUSTEE, NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY OF ANY NOTICE BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO BONDHOLDERS UNDER THE TERMS OF THE INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

The descriptions and summaries of the Indenture, the Financing Agreement, the State Aid Agreement, the Mortgage and the Security Agreement set forth below and in "EXHIBIT D – SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS" hereto do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. Copies of each document will be available for inspection at the designated office of the Trustee.

### **General**

The Bonds are limited obligations of the Authority and are payable by the Authority solely from the assigned Installment Payments, Additional Payments and Reserve Fund Payments due from the Academy under the Financing Agreement (as described below) and other funds pledged by the Academy under the Indenture. The Academy has pledged to pay the assigned Installment Payments, Additional Payments, and Reserve Fund Payments due under the Financing Agreement from State School Aid funds received by the Academy and with respect to this pledge the Academy has entered into a State Aid Agreement relating to the intercept and/or advance of its State



School Aid payments. The Bonds are further secured by a Mortgage granting the Trustee a first mortgage lien, subject to permitted encumbrances, on the real property purchased with proceeds of the Bonds and by a Security Agreement executed by the Academy in favor of the Trustee with regard to the personal property and equipment purchased with the proceeds of the Bonds and pledging all the Academy's right, title and interest in and to the Project as more particularly described below.

THE BONDS ARE PAYABLE SOLELY FROM THE ACADEMY'S ASSIGNED INSTALLMENT PAYMENTS, ADDITIONAL PAYMENTS, AND RESERVE FUND PAYMENTS AGREED TO BY THE ACADEMY UNDER THE FINANCING AGREEMENT AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY FOR EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE INSTALLMENT PAYMENTS, ADDITIONAL PAYMENTS AND RESERVE FUND PAYMENTS, UNDER THE FINANCING AGREEMENT. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, THE CENTRAL MICHIGAN UNIVERSITY BOARD OF TRUSTEES (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, THE CENTRAL MICHIGAN UNIVERSITY BOARD OF TRUSTEES OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

#### **The Indenture**

The Bonds are to be issued pursuant to the Indenture. All Bonds issued thereunder shall be limited obligations of the Authority, payable solely from and secured solely from payments by the Academy under the Financing Agreement and the funds established under the Indenture. As security for its obligations under the Indenture, the Authority will assign to the Trustee the payments received or receivable by the Authority pursuant to the Financing Agreement (except for certain Unassigned Rights), all funds held by the Trustee under the Indenture and all income derived from the investment of such funds.

The Reserve Fund will be established for the Bonds pursuant to the Indenture and maintained in an amount equal to the Reserve Fund Requirement. Amounts on deposit in the Reserve Fund shall be available for payment of principal of and interest on the Bonds if Installment Payments by the Academy, along with other available funds, are not sufficient therefore. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – The Reserve Fund" below.

See "EXHIBIT D – SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS" for a description of certain provisions of the Indenture and certain terms defined therein.

#### **The Financing Agreement**

The Academy will finance the Project and the Project Costs pursuant to the terms of the Financing Agreement. The Authority's acquisition of the Financing Agreement with the proceeds of the Bonds will assist in the financing of the Academy's acquisition and equipping of the Project.

The Academy's Installment Payments, Additional Payments and Reserve Fund Payments assigned to the Authority under the Financing Agreement will be sufficient to pay the principal of, premium, if any, and interest on the Bonds when due, to make any required deposits into the Reserve Fund, and to pay Bond Servicing Costs. See "EXHIBIT D – SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS" for a description of certain provisions of the Financing Agreement and certain terms defined therein.

### **State School Aid Pledge**

Pursuant to the Financing Agreement, the Academy has pledged to pay the Installment Payments, Additional Payments and Reserve Fund Payments due under the Financing Agreement from State School Aid funds to be allocated to it and payable to its Authorizing Body; provided that the State School Aid applied by the Trustee under the Indenture on behalf of the Academy to pay Installment Payments and other payments required under the Financing Agreement in any fiscal year of the Academy shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy for such fiscal year.

The Academy agrees with the Authority under the Financing Agreement that if the State School Aid Act is modified to provide for a different schedule of periodic State School Aid payments than that now in effect, the Authority, by written notice to the Trustee, the State Treasurer, the Academy and its Authorizing Body may designate different payment dates (and, to the extent necessary, different Installment Payment amounts) to provide for timely receipt of Installment Payments, Additional Payments and Reserve Fund Payments consistent with such revised State School Aid payment schedule.

### **Direct Transfer of State School Aid for Payment of the Financing Agreement**

Under the Financing Agreement the Academy has agreed to pay the Installment Payments, Additional Payments and Reserve Fund Payments from the State School Aid to be allocated to it and payable to its Authorizing Body. The Authority and the Academy in the Financing Agreement, and the Authority, the State Treasurer, the Academy and its Authorizing Body in the State Aid Agreement, agree that the State Treasurer is irrevocably directed to transmit 97% of the Academy's State School Aid payments directly to the Trustee, who shall set aside from such moneys the amount to pay the next Installment Payment, Additional Payment and Reserve Fund Payment of the Academy required under the Financing Agreement when due and then distribute the remainder of such moneys to the Academy's Authorizing Body; provided, that the amounts applied by the Trustee to pay Installment Payments and other payments required under the Financing Agreement in any fiscal year of the Academy shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy for such fiscal year.

If for any reason the amount held by the Trustee on the due date of any Installment Payment, Additional Payment or Reserve Fund Payment is insufficient to pay the Installment Payment, Additional Payment or Reserve Fund Payment due under the Financing Agreement, then in that event the Academy covenants and agrees to use any and all other available funds to satisfy such Installment Payment, Additional Payment or Reserve Fund Payment obligation.

If, on the due date for any Installment Payment, Additional Payment or Reserve Fund Payment, the funds with the Trustee are insufficient to pay the Installment Payment, Additional Payment or Reserve Fund Payment due under the Financing Agreement, the Academy, pursuant to the State School Aid Act to the extent necessary to meet that payment obligation, assigns to the Authority and authorizes and directs the State Treasurer to intercept and/or advance not to exceed 97% of any State School Aid payment to be made to or for the Academy which is dedicated for distribution or for which the appropriation authorizing such payment has been made. Any such advance will be made directly to the Trustee and applied on the following priority basis: first, the amount required to pay the Installment Payment and Reserve Fund Payment due under the Financing Agreement shall be held and applied by the Trustee for that purpose; second, the amount required to pay the Additional Payments due under the Financing Agreement shall be held and applied by the Trustee for that purpose; and third, any remaining amount shall be immediately distributed to the Academy's Authorizing Body or as otherwise directed by the Authority. The Financing Agreement provides that any such intercept and/or advance process with respect to the Academy shall continue until sufficient funds are deposited with the Trustee to pay all of the Academy's Installment Payments, Additional Payments, and Reserve Fund Payments due under the Financing Agreement. Notwithstanding the foregoing, no more than twenty (20%) percent of the State School Aid payments received by the Academy for each fiscal year may be legally available to pay principal and interest on the related Bonds through its Installment Payments, Additional Payments, and Reserve Fund Payments due under the Financing Agreement.

### **State School Aid Source**

The primary source of revenue received by the Academy is State School Aid which is a per pupil foundation allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature. See “RISK FACTORS –Legislative and Nonappropriation Risk” herein.

See “EXHIBIT A - MICHIGAN TECHNICAL ACADEMY – State School Aid Payments” for the Academy’s State School Aid per pupil foundation allowance for the 2000–01 through 2005–06 fiscal years.

Pursuant to the State School Aid Act, a public school academy’s annual entitlement to State School Aid for the 2005–06 fiscal year shall be paid in installments equal to one-eleventh of such entitlement on the 20<sup>th</sup> (or if the 20<sup>th</sup> falls on a Saturday, Sunday or legal holiday, on the immediately preceding regular business day) in each of the months of October through August, subject to certain statutory adjustments.

### ***Pupil Membership Counts***

State School Aid is paid to a public school academy on a per pupil basis. The State School Aid Act currently provides that pupil membership is based on a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education. The State School Aid Act contains alternative methodologies for determining pupil counts for public school academies which have been in existence less than two years or which have suspended operations for one or more semesters. For school districts, including public school academies, which have pupils enrolled in a grade level that was not offered the prior year, pupil membership counts for that grade level are based on an average of the current September count and the following February supplemental count, all as determined by the Michigan Department of Education. None of the alternative methodologies for determining pupil counts apply to the Academy.

### ***Legislative Changes in the State School Aid Act***

The State School Aid Act may be modified by the Michigan Legislature, subject only to certain State constitutional parameters. The amount, timing and methodology for calculation of State School Aid have changed significantly in recent years. State School Aid payments are subject to annual appropriation and future modification by the Michigan Legislature, subject only to such constitutional parameters. See “RISK FACTORS” section, including “Dependence on State School Aid Payments; State School Aid Payments Subject to Annual Appropriation,” “Delay in Reduction, or Termination of State School Aid,” “Changes in Law”, and “Legislative and Nonappropriation Risk” herein.

### **The Reserve Fund**

Proceeds from the Bonds shall also be used to establish a Reserve Fund in an amount equal to the Reserve Fund Requirement (\$538,700.00), such that if at any time there are not sufficient funds in the Bond Fund established under the Indenture for the payment of principal of, premium, if any, and interest on the Bonds as the same become due, the Trustee shall withdraw from the Reserve Fund and deposit in the Bond Fund sufficient moneys which, when added to the moneys on deposit in the Bond Fund, will be sufficient to meet the payment of principal, premium, if any, and interest then due on the Bonds. Pursuant to the Financing Agreement, if any withdrawal is made from the Reserve Fund to cure any deficiency in the Bond Fund, the Academy is required to pay to the Trustee for deposit into the Reserve Fund on each Payment Date commencing with the first Payment Date following such withdrawal, an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement in ten equal installments. If on any Bond Payment Date, the value of the Reserve Fund is less than the Reserve Fund Requirement, the Academy shall pay to the Trustee for deposit into the Reserve Fund on each Payment Date, commencing on the first Payment Date following such Bond Payment Date, an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement in six consecutive equal payments (such payments being “Reserve Fund Payments”). Notwithstanding the foregoing, if there are sufficient funds in the State Aid Intercept Account of the Bond Fund to replenish any deficiency in the Reserve Fund (after taking into consideration the priority of

payments set forth in the Indenture), then the obligation to make Reserve Fund Payments in an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement shall be accelerated and the Trustee shall transfer funds from the State Aid Intercept Account to the Reserve Fund to satisfy all outstanding Reserve Fund Payment requirements in accordance with the Indenture.

### **The Mortgage**

Pursuant to a Mortgage dated as of February 1, 2006 placed upon the Facility by ACME as mortgagor in favor of the Trustee and assumed by the Academy in conjunction with the transaction (the “Mortgage”), as additional security for the Bonds, the Trustee will receive a first mortgage lien, subject to permitted encumbrances, on the Facility to secure the payment of the Academy’s Installment Payments and other payments due under the Financing Agreement.

Under the State School Aid Act, property of a public school academy that was acquired substantially with funds appropriated under such Act is required to be transferred to the State by the public school academy in certain events, including revocation of its charter or if its charter has not been reissued by the authorizing body. In such event, the State School Aid Act authorizes the State Treasurer to sell such property and requires the State Treasurer to apply the net proceeds from such sale first to pay any debt of the public school academy secured by such property, and second, to deposit any remaining amount into the State School Aid fund.

There are potential risks relating to environmental liability associated with ownership of or secured lending with respect to real property. The Academy has been provided a Phase I Report, which determined that certain recognized environmental conditions were present on the Facility. A Baseline Environmental Assessment (“BEA”) has also been performed. See “RISK FACTORS – Environmental Regulation” herein. When hazardous substances are found on real property, owners or secured lenders may be held liable for costs and other damages relating to such hazardous substances unless they comply with provisions of law designed to provide them with liability protection. The Trustee as mortgagee on behalf of the Bondholders may avoid such liability with respect to the Facility, if it does not directly participate in the ownership or management of the Project. Moreover, the Trustee as such mortgagee may avoid potential liability under Part 201 of the Michigan Natural Resources Environmental Response Act, M.C.L. 324.20101-.20142 if a BEA is timely conducted and the results of the BEA are timely disclosed to the Michigan Department of Environmental Quality and any subsequent purchaser or transferee.

### **The Security Agreement**

Pursuant to a Security Agreement dated as of February 1, 2006 (the “Security Agreement”) executed by the Academy, the Trustee will receive a first priority security interest in the Equipment.

### **Certain Financial Information Concerning the State**

Complete financial statements of all of the State’s funds as included in the State’s Comprehensive Annual Financial Report (“CAFR”) prepared by the State’s Office of the State Budget are available from the Office of the State Budget website at [www.michigan.gov/budget](http://www.michigan.gov/budget). The State has agreed to file its CAFR with the Nationally Recognized Municipal Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually.

### **Limited Obligation**

Neither the Authority nor the State of Michigan nor the Authorizing Body shall be obligated to pay the Bonds or the interest thereon or other costs incident thereto, except that the Authority shall be obligated to make such payments solely from the security for the Bonds described below. See “EXHIBIT D – SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS – The Indenture – Security” herein. Neither the faith and credit of the Authority or the Authorizing Body nor the taxing power of the State of Michigan is pledged to the payment of the principal of, premium, if any, or the interest on, the Bonds. The Bonds are not general obligations of the Authority, but are limited obligations payable solely from certain amounts payable by the Academy under the Financing Agreement and other moneys pledged therefor under the Indenture. The Authority has no taxing power.

## CHARTER SCHOOLS IN MICHIGAN

### General

In December of 1993, Michigan became the ninth state to pass charter school legislation. The current charter school statute is codified in the Revised School Code, § 380.501 – 380.507 of the Michigan Compiled Laws (M.C.L.). In Michigan, charter schools are known as public school academies. A public school academy is a state-supported public school that is funded through the State School Aid Act (1979 PA 94, as amended, M.C.L., 388.1601, *et. seq.*) and receives funding through a per pupil base foundation allowance. See “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – State School Aid Source” herein.

According to the Michigan Association of Public School Academies ("MAPSA"), there were 219 public school academies serving approximately 82,000 students during the 2004-05 school year. More than 50% of charter students are minorities and 58% of them qualify for free- or reduced-price lunch. Nearly 85% of Michigan's public school academies had increased or steady enrollment for the 2003-04 school year, and more than two-thirds of those schools have waiting lists. About 9% of charter students have special needs.

### Michigan Supreme Court Upholds Law

The Michigan Supreme Court ruled 5-1 on July 30, 1997 that Michigan's original public school academy law was constitutional. The Court ruled that "1993 PA 362 does not violate Constitution 1963, article 8 section 2 or section 3. Further, . . . the 1994 PA 416 repealer is valid and enforceable, requiring remand to the trial court for vacation of the injunction and entry of an order to the Department of Treasury to disburse funds to the public school academies operating under 1993 PA 362." *Council of Organizations and Others for Educ. about Parochialaid, Inc. v. Michigan Dept. of Educ. et. al.*, 455 Mich. 557, 556 N.W.2d 208 (Mich. 1997).

### Michigan School Finance Reform

On March 15, 1994, the electors of the State of Michigan approved a ballot proposition ("Proposal A") to amend the State Constitution of 1963, in part, to increase the state sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in Michigan in order to reduce reliance on local property taxes for school operating purposes and to equalize the per pupil finance resource disparities among all school districts. The state aid package passed by the Legislature as part of the school finance reform legislation instituted a per pupil foundation allowance beginning in the fiscal year 1994/1995. The proposed foundation allowance in 2005/2006 is from \$6,875 to \$8,000 per pupil, depending upon the district's 1993/1994 revenue. In following years the foundation allowance may be adjusted by an index based upon the change in revenues to the state school aid fund and change in the total number of pupils statewide and the spread between high and low pupil allowance will be reduced. For public school academies, which have no taxing authority, the foundation allowance consists of State School Aid. The source of revenues for State School Aid is derived from a mix of taxing sources, including, but not limited to, a statewide property tax of 6 mills on all property (homestead and non-homestead), a state sales and use tax, a real estate transfer tax and a cigarette tax.

State School Aid appropriations and the payment schedule for State School Aid can be changed by the Legislature at any time.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required for payment of principal of and interest on the Bonds.

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
02/14/2006					
08/01/2006			205,957.97	205,957.97	
02/01/2007			221,990.63	221,990.63	427,948.60
08/01/2007			221,990.63	221,990.63	
02/01/2008	90,000.00	6.000%	221,990.63	311,990.63	533,981.26

08/01/2008			219,290.63	219,290.63	
02/01/2009	95,000.00	6.000%	219,290.63	14,290.63	533,581.26
08/01/2009			216,440.63	216,440.63	
02/01/2010	100,000.00	6.000%	216,440.63	316,440.63	532,881.26
08/01/2010			213,440.63	213,440.63	
02/01/2011	110,000.00	6.000%	213,440.63	323,440.63	536,881.26
08/01/2011			210,140.63	210,140.63	
02/01/2012	115,000.00	6.000%	210,140.63	325,140.63	535,281.26
08/01/2012			206,690.63	206,690.63	
02/01/2013	120,000.00	6.000%	206,690.63	326,690.63	533,381.26
08/01/2013			203,090.63	203,090.63	
02/01/2014	130,000.00	6.000%	203,090.63	333,090.63	536,181.26
08/01/2014			199,190.63	199,190.63	
02/01/2015	135,000.00	6.000%	199,190.63	334,190.63	533,381.26
08/01/2015			195,140.63	195,140.63	
02/01/2016	145,000.00	6.000%	195,140.63	340,140.63	535,281.26
08/01/2016			190,790.63	190,790.63	
02/01/2017	150,000.00	6.375%	190,790.63	340,790.63	531,581.26
08/01/2017			186,009.38	186,009.38	
02/01/2018	165,000.00	6.375%	186,009.38	351,009.38	537,018.76
08/01/2018			180,750.01	180,750.01	
02/01/2019	175,000.00	6.375%	180,750.01	355,750.01	536,500.02
08/01/2019			175,171.88	175,171.88	
02/01/2020	185,000.00	6.375%	175,171.88	360,171.88	535,343.76
08/01/2020			169,275.01	169,275.01	
02/01/2021	195,000.00	6.375%	169,275.01	364,275.01	533,550.02
08/01/2021			163,059.38	163,059.38	
02/01/2022	210,000.00	6.375%	163,059.38	373,059.38	536,118.76
08/01/2022			156,365.63	156,365.63	
02/01/2023	220,000.00	6.375%	156,365.63	376,365.63	532,731.26
08/01/2023			149,353.13	149,353.13	
02/01/2024	235,000.00	6.375%	149,353.13	384,353.13	533,706.26
08/01/2024			141,862.51	141,862.51	
02/01/2025	250,000.00	6.375%	141,862.51	391,862.51	533,725.02
08/01/2025			133,893.76	133,893.76	
02/01/2026	270,000.00	6.375%	133,893.76	403,893.76	537,787.52
08/01/2026			125,287.50	125,287.50	
02/01/2027	285,000.00	6.500%	125,287.50	410,287.50	535,575.00
08/01/2027			116,025.00	116,025.00	
02/01/2028	305,000.00	6.500%	116,025.00	421,025.00	537,050.00
08/01/2028			106,112.50	106,112.50	
02/01/2029	325,000.00	6.500%	106,112.50	431,112.50	537,225.00
08/01/2029			95,550.00	95,550.00	
02/01/2030	345,000.00	6.500%	95,550.00	440,550.00	536,100.00
08/01/2030			84,337.50	84,337.50	
02/01/2031	370,000.00	6.500%	84,337.50	454,337.50	538,675.00
02/01/2031			72,312.50	72,312.50	
02/01/2032	390,000.00	6.500%	72,312.50	462,312.50	534,625.00
02/01/2032			59,637.50	59,637.50	
02/01/2033	415,000.00	6.500%	59,637.50	474,637.50	534,275.00
02/01/2033			46,150.00	46,150.00	
02/01/2034	440,000.00	6.500%	46,150.00	486,150.00	532,300.00
02/01/2034			31,850.00	31,850.00	
02/01/2035	475,000.00	6.500%	31,850.00	506,850.00	538,700.00
02/01/2035			16,412.50	16,412.50	
02/01/2036	<u>505,000.00</u>	6.500%	<u>16,412.50</u>	<u>521,412.50</u>	<u>537,825.00</u>
<b>TOTALS</b>	<b>\$6,950,000.00</b>		<b>\$8,999,192.58</b>	<b>\$15,949,192.58</b>	<b>\$15,949,192.58</b>

#### **LIMITATION ON ADDITIONAL INDEBTEDNESS**

The Academy in the Financing Agreement will covenant that it will not incur indebtedness for borrowed money, guarantee the obligations of others or incur other pecuniary obligations, except:

- (a) obligations incurred in the ordinary course of business;

- (b) obligations contained in the Academy's management agreement with a management company which are in all respects subordinated in priority of payment to the Installment Payments, Reserve Fund Payments, and Additional Payments;
- (c) state aid notes issued by the Academy pursuant to the School Code secured by a pledge of State School Aid on a parity with the payments required to be made by the Academy under the Financing Agreement;
- (d) obligations being issued to finance or refinance capital improvements which are on a parity of security with the security for the Installment Payments, Reserve Fund Payments and Additional Payments under the Financing Agreement with respect to the pledged State School Aid, if the Academy delivers to the Trustee, prior to incurring such obligation, a written certificate signed by an authorized officer of the Academy certifying a Historical Coverage Ratio of not less than 1.40 and a Projected Coverage Ratio of not less than 1.40 disregarding for purposes of such certificate any debt service on the obligation to be incurred expected to be paid with proceeds of such obligation; and
- (e) purchase money obligations secured only by the property being financed and a pledge of State School Aid provided that the aggregate amount of such purchase money obligations outstanding at any one time shall not exceed fifteen (15%) percent of the State School Aid received by the Academy in the most recently completed fiscal year.

Obligations incurred pursuant to paragraph (d) above may be secured by the Mortgage and the Security Agreement if (a) the obligations are acquired or funded with proceeds of Additional Bonds of the Authority, and (b) the facilities being financed or refinanced thereby are also pledged or mortgaged as parity security for Installment Payments, Reserve Fund Payments and Additional Payments. For purposes of the certificate described in paragraph (d) above:

- (a) "Historical Coverage Ratio" means the Debt Service Coverage Ratio during each of the Academy's three most recent fiscal years;
- (b) "Projected Coverage Ratio" means, as of any date of determination, the projected Debt Service Coverage Ratio for the current fiscal year and each of the next five fiscal years of the Academy, including for such purpose both expected revenue resulting from the facilities, if any, to be financed by the obligation to be incurred and debt service on the obligation expected to be incurred; and
- (c) "Debt Service Coverage Ratio" means for any period the ratio of (i) the amount of revenues (including, without duplication, proceeds of state aid notes available during such period) of the Academy available (after payment of operating expenses and debt service on any state aid notes issued by the Academy but before payment of subordinated management fees and other subordinated fees and expenses) in such period to pay debt service on obligations of the Academy, to (ii) the amount of scheduled debt service on all obligations of the Academy including all obligations under the Financing Agreement) other than state aid notes in such period.

#### **REQUIRED DEBT SERVICE COVERAGE COVENANT**

Within 60 days after the end of each fiscal quarter of the Academy, the Academy shall file with the Trustee a certificate of an authorized officer of the Academy certifying the Debt Service Coverage ratio of the preceding 12 month period ending as of the last day of such fiscal quarter.

The Academy covenants that if the Debt Service Coverage Ratio of the Academy for the twelve month period ending on the last day of any fiscal quarter of the Academy is less than 1.40, the Academy will, within 90 days after the end of such fiscal quarter, engage a Management Consultant for the purpose of obtaining a written report setting forth recommendations to the Academy on steps to be taken to achieve a Debt Service Coverage Ratio of not less than 1.40. An Authorized Academy Representative shall file a certificate with the Trustee identifying the

Management Consultant engaged by the Academy within 90 days after the end of the fiscal quarter in which such noncompliance first occurred. Promptly after acceptance of the Management Consultant's written report by the Academy's Board of Directors and not later than 210 days after the end of the fiscal quarter in which such noncompliance first occurred, the Academy shall file a copy of the Management Consultant's report with the Trustee and the Authority. The Academy further covenants that it will, to the full extent permitted by law, follow the recommendations of the Management Consultant set forth in such report. As long as the Academy complies with the recommendations of the Management Consultant, failure by the Academy to achieve a Debt Service Coverage Ratio of at least 1.40 will not constitute a Default under the Financing Agreement. If the Academy subsequently achieves a Debt Service Coverage Ratio of at least 1.40 and then later falls below this requirement, the Academy shall be obligated to repeat the process of obtaining a Management Consultant report as set forth above.

## **ACADEMY INFORMATION REPORTING REQUIREMENTS**

In addition to providing audited financial statements (See "CONTINUING DISCLOSURE" below and EXHIBIT G - FORM OF CONTINUING DISCLOSURE AGREEMENT" herein), the Academy agrees to file directly with the Trustee: (a) as soon as available and in any event within 45 days after the end of each fiscal quarter (except within 90 days after the end of each fourth fiscal quarter), a copy of the unaudited year-to-date financial and budget reports of the Academy for the fiscal period then ended, including budgeted and actual data on student enrollment, revenues and expenses for such period; and (b) as soon as available and in any event within 90 days after the end of each fiscal year, an end-of-year report on the operations of the Academy during such year.

## **RISK FACTORS**

This Official Statement contains summaries of pertinent portions of the Bonds and the Indenture. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of some of the risk factors associated with the Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

### **Speculative Investment**

Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. The Bonds are rated within the "BB" major rating category by Standard and Poor's Ratings Services ("S&P"). See "RATING", below. Although any explanation of the significance of the rating may be obtained only from S&P, bonds that are within or below that category are typically high-yield, high-risk securities, commonly known as "junk bonds." Such high-yield, high-risk securities are considered predominantly speculative with respect to the Academy's continuing ability to make principal and interest payments. See also "RISK FACTORS – Sufficiency of Revenues," below. Such securities may exhibit price fluctuations due to the changes in interest rate or bond yield levels. As a result, the value of the Bonds may fluctuate significantly in the short-term. Further, such securities have a less liquid resale market. As a result, potential investors may have difficulty selling or disposing of the Bonds quickly in certain markets or market conditions.

### **Sufficiency of Revenues**

The Bonds are secured by and payable solely from revenues of the Academy pledged under the terms and conditions of the Indenture and as otherwise described therein. Based on present circumstances (i.e., its Charter and operating history), and assuming additional enrollment and capacity after acquisition and equipping of the Project, the Academy believes it will generate sufficient revenues to meet its obligations under the Indenture. However, the Academy's Charter may be terminated or not renewed, or the basis of the assumptions utilized by the Academy to formulate this belief may otherwise change and no representation or assurance can be made that the Academy will continue to generate sufficient revenues to meet its obligations.

### **Dependence on State School Aid Payments; State School Aid Payments Subject to Annual Appropriation**

The Academy may not charge tuition and has no taxing authority. The primary source of revenue received by the Academy is the per pupil foundation allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is



based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature. The Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, to enable the Academy to pay debt service on the Bonds and to meet its general operating expenses. Similarly, the State allocation per student could be reduced or not keep pace with expenses such that the aggregate State School Aid payments to the Academy is inadequate to allow the Academy to pay its operating expenses and debt service on the Bonds. No liability shall accrue to the State in such event, and the State will not be obligated or liable for any future payments or any damages in such event. In the event the State were to withhold the payment of monies from the Academy for any reason, even a reason that is ultimately determined to be invalid or unlawful, it is likely the Academy would be forced to cease operations.

### **Delay in, Reduction, or Termination of State School Aid**

Any event that would cause a delay, reduction or elimination of State School Aid payments would have a material adverse effect on the ability of the Academy to make debt service payments on the Bonds. The Michigan legislature is required to balance the budget and if it does not, the proration provisions of the School Aid Act become effective. The proration provisions essentially roll back the foundation allowance. Section 11 of the School Aid Act states that if appropriations exceed the amount available for expenditure from the School Aid Fund in any given year, then the State must prorate certain payments to school districts in order to eliminate the shortfall. These provisions resulted in a \$127 million school aid shortfall in fiscal year 2003 and an annualized prorated 3.8% across-the-board cut applied to all State spending categories except those specifically protected by law. The effect of this proration was to reduce the Academy's per pupil foundation allowance by \$74, from \$7,000 per student to \$6,926 for fiscal year 2003-04. No representation can be made that future fiscal periods will not be subject to similar budget shortfalls.

### **Changes in Law**

The School Aid Act is subject to modification by the Michigan Legislature, subject only to certain constitutional parameters. The amount, timing and methodology for calculation of State School Aid has changed significantly in recent years, and is subject to future legislative changes.

Further, the Michigan Legislature has amended the charter school laws since they were first enacted in 1993. Future amendments to the law may adversely affect the Academy, for example, by reducing the maximum amount payable by the State for students enrolled by the Academy, by limiting the amount of such State School Aid payments that may be pledged to obligations such as the Bonds, by withholding a percentage of the State School Aid payments if a charter school is deemed not to be in compliance with its charter or state and federal laws, by decreasing the maximum length of a charter contract's term, by requiring a state body to make an assessment of each school's effectiveness every year, by limiting the number of students for which State funds are available, by mandating new facilities or programs which may cost more than has been projected, by revising the relative responsibilities between school districts and the State for financing schools (including charter schools) or by eliminating the authority for charter schools.

### **Economic and Other Factors**

Future economic and other factors may adversely affect the Academy's revenues and expenses and, consequently, the Academy's ability to make debt service payments under the Indenture. Among the factors that could have such adverse effects are: decreases in the number of students seeking to attend the Academy at optimum levels for each grade level; the ability of the Academy to provide the education desired and accepted by the population served; economic developments in the affected service area; diminution of the Academy's reputation in its field; competition from other educational institutions, including other charter schools, private schools and public schools; lessened ability of the Academy to attract and retain qualified teachers and staff at salaries that permit payment of debt service and expenses; increased costs associated with technological advances; changes in government regulation of the education industry or in the Michigan charter school statutes; future claims for accidents at the Academy's sites and the extent of insurance coverage for such claims; decrease in per-student funding amounts by the State; and the occurrence of natural disasters such as floods.

### **Limited Operating History; Reliance on Projections**

The ability of the Academy to make debt service payments when due is dependent on State School Aid payments to be received by the Academy as payment for educating students. The Academy has only conducted operations since 1995. The projections of revenues and expenses contained in "EXHIBIT A – MICHIGAN TECHNICAL ACADEMY," herein were prepared by the Helicon (as defined herein under "RISK FACTORS - Assumptions Regarding Enrollment and State School Aid") on behalf of the Academy and has not been independently reviewed or verified by any other party. In particular, the Underwriter has not independently verified such projections, and makes no representations nor gives any assurances that such projections, nor the assumptions underlying them, are complete or correct. Further, the projections relate only to the fiscal years of the Academy ending June 30, 2006 through 2010, and consequently do not cover the entire period that the Bonds will be outstanding.

The projections are derived from the actual operation of the Academy and from the Academy's assumptions about future student enrollment and expenses. There can be no assurance that the actual enrollment revenues and expenses for the Academy will be consistent with the assumptions underlying the projections contained herein. Moreover, no guarantee can be made that the projections of revenues and expenses contained herein will correspond with the results actually achieved in the future because there is no assurance that actual events will correspond with the assumptions made by the Academy. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of insufficient enrollment, reduced State School Aid funds, or otherwise), employee relations, changes in taxes, changes in applicable government regulation, changes in demographic trends, changes in elementary education competition and changes in local or general economic conditions. Refer to "EXHIBIT A – MICHIGAN TECHNICAL ACADEMY," to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results.

**NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE ACADEMY. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE SCHOOL AID FUNDS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN ELEMENTARY AND SECONDARY EDUCATION COMPETITION AND LOCAL OR GENERAL ECONOMIC CONDITIONS.**

### **The Academy's Operation as a Public School Academy**

The Academy is a body corporate and governmental agency formed under the laws of the State of Michigan. Prior to the issuance of the Bonds, the Academy has had limited operating history as a public school academy. The Academy has limited assets other than its interest in the Project and its interests in the real and personal property, as those interests may be, at its other campuses. No assurance can be given that the Academy will be able to operate as a public school academy in a manner that will generate sufficient revenues to meet the debt service requirements of the Bonds. A public school academy may not charge tuition to a student attending the academy. Public school academies receive State funding on a per pupil basis to support their operations. See "CHARTER SCHOOLS IN MICHIGAN –Michigan School Finance Reform" herein.

Since the Academy has limited assets other than its interest in the Project and its interests in the real and personal property, as those interests may be, at its other campuses, its failure to derive revenues sufficient to meet its obligations under the Financing Agreement would materially impair the Academy's ability to make the Installment Payments or other payments under the Financing Agreement when due. If there is a shortfall in State School Aid that renders the Academy unable to pay the Installment Payments in full, the failure to make Installment Payments in full would constitute an event of default under the Financing Agreement. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - The Financing Agreement" herein.

### **The Nature of the Forecast**

The projected enrollment and the Forecast included in “EXHIBIT A – MICHIGAN TECHNICAL ACADEMY” (the “Forecast”) is based upon assumptions made by management of the Academy which are summarized in EXHIBIT A. There are usually differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In addition, the Forecast relates only to the fiscal years of the Academy ending June 30, 2006 through June 30, 2010, and consequently does not cover the entire period that the Bonds may be outstanding. Prospective investors in the Bonds should read “EXHIBIT A – MICHIGAN TECHNICAL ACADEMY” in its entirety.

**NO GUARANTEE CAN BE MADE THAT THE FORECAST WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY MANAGEMENT OF THE ACADEMY. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE SCHOOL AID FUNDS, CONCESSIONS OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN ELEMENTARY AND SECONDARY EDUCATION GENERALLY, COMPETITION AND LOCAL OR GENERAL ECONOMIC CONDITIONS.**

### **Assumptions Regarding Enrollment and State School Aid**

Helicon Associates, Inc. (“Helicon”), the management company retained by the Academy, has prepared the Forecast for the Academy. The Forecast contains information material to a decision to purchase the Bonds and should be read by potential investors in its entirety. The Forecast contains: (a) forecasts of State School Aid and other sources of revenues, and foundation allowance, (b) projections of future student enrollment, (c) forecasts of expenditures, and (d) debt service requirements of the Bonds. The Forecast sets forth a number of assumptions on which the Forecast is based, including but not limited to, the projected enrollment of the Academy and the per student amounts to be paid by the State. Such assumptions are based on present circumstances and information currently available, which was furnished by Helicon and the Academy, as well as other sources. Such information may be incomplete and may not necessarily disclose all material facts that might affect the Academy and the analysis contained in the Forecast. Accordingly, prospective investors should carefully evaluate the assumptions and other information in the Forecast in the light of the circumstances then prevailing. The Forecast has been included herein in reliance upon the knowledge and experience of Helicon in the management of public school academies. The accuracy of the Forecast is dependent on the occurrence of specified assumptions and other future events, which cannot be assured, and therefore, the actual results achieved during the period will vary from those forecast and those differences may be material and adverse. See “EXHIBIT A – MICHIGAN TECHNICAL ACADEMY”. The Underwriter has not independently verified the statistical data included therein and makes no representations nor gives any assurances that such data are complete or correct. Further, the Underwriter makes no representations nor gives any assurances that the assumptions incorporated in the Forecast are valid. The ability of the Academy to achieve and maintain on a continuing basis financially sustaining levels of enrollment at the Academy is subject to a number of factors. The ability of the Academy to attract students on a continuing basis will be dependent on many factors including, but not limited to, the physical condition of the Project and its other facilities, the programs provided for students, and the supply of other public, private and charter schools in the communities in which its campuses are located. In addition, the Forecast is only for the five fiscal years ending June 30, 2010 and, consequently, does not cover the entire period during which the Bonds may be outstanding.

Any event that would cause a delay, reduction or elimination of the State School Aid would have a material adverse effect on the ability of the Academy to make payments due under the Financing Agreement, including, but not limited to Installment Payments and Additional Payments, coming due thereafter. See “RISK FACTORS,” including the subsections captioned “Dependence on State School Aid Payments; State School Aid Payments Subject to Annual Appropriation”; “Delay in, Reduction, or Termination of State School Aid”; and “Legislative and Nonappropriation Risk” herein.

Section 11 of the School Aid Act states that if appropriations exceed the amount available for expenditure from the School Aid Fund in any given fiscal year, then the State must prorate certain payments to school districts in order to eliminate the shortfall. These provisions resulted in a \$127 million school aid shortfall in fiscal year 2003 and an annualized prorated 3.8% across the board cut applied to all state school aid except those categoricals specifically protected by law. The effect of this proration was to reduce the Academy's per pupil foundation allowance by approximately \$48 per student, from \$7,000 per student to \$6,952 for fiscal year 2003. The proration language in the State School Aid Act was amended such that any necessary proration would be calculated strictly on a per pupil basis for years 2004 and later. As a result, the Academy's per pupil allowance for fiscal year 2004 was prorated by \$74 down to \$6,926.<sup>1</sup>

### **Existing and Prospective Operations Generally**

The revenues and expenses associated with the existing and prospective operations of the Academy will be affected by future events and conditions relating generally to, among other things, demand in the Academy's service area for educational services, the ability of the Academy to continue to provide the kinds of facilities and educational services desired or required by the student population, economic developments in the affected service area, competition from existing or future facilities and providers, the ability of the Academy to maintain high enrollment levels in the Project and at its other campuses and the ability to continue to receive State School Aid sufficient for the payment of all related costs of operation.

The Academy is a public school academy and unlike traditional public schools, does not have an existing base of constituents from which pupils are drawn. As of September 2004, the number of full-time students enrolled for the 2004-2005 school year was 1028, with 255 students enrolled in the high school. The Project has a capacity of 650 students and the Academy will have to attract and maintain a large student population. State School Aid received by the Academy from the State of Michigan is allocated on a per pupil basis. The Academy is subject to competition from other schools in its service area providing similar or comparable services and no assurance can be given that the Academy will be able to attract and maintain students adequate in number to provide sufficient revenues to pay amounts due under the Financing Agreement. There are competing public schools, private schools and public school academies in the Academy's service area and there can be no assurance that additional competing facilities will not be established or constructed in the future.

No assurances can be given that the Academy will continue to have funds for the payment of amounts due under the Financing Agreement, including the Installment Payments. Accordingly, the likelihood that there will be sufficient funds to pay the principal of, premium, if any, and interest on the Bonds is dependent upon certain factors which include, but are not limited to, (a) the continuing need of the Academy for the Project, (b) the ability of the Academy to obtain funds (including State School Aid) to pay obligations associated with the Financing Agreement, (c) the demographic conditions within the service area of the Academy, and (d) the value of the Project and other assets of the Academy upon foreclosure sale under the Mortgage instituted by the Trustee pursuant to the Indenture and Mortgage and upon exercise of the remedies available under the Financing Agreement, Indenture, and the Security Agreement.

### **Competition for Students**

The Academy will be competing for students with local school districts, within whose geographic boundaries its campuses are located, and with surrounding school districts, as well as private schools within or near the school districts. The Academy's students may come from anywhere within the State. The Intermediate school district in which the Academy is located is Wayne R.E.S.A., serving more than 363,220 students<sup>2</sup>. Wayne R.E.S.A. is a regional educational service agency that provides a broad spectrum of services and support to Wayne County's 34 school districts aimed at improving student achievement and maximizing economies of scale in staff development, purchasing, and administrative services. Services range from curriculum consulting and staff development, helping districts maximize technology use in the classroom, software applications for district student

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<sup>1</sup> Source: The Academy and Michigan Department of Education.

<sup>2</sup> State of Michigan, State Aid Financial Status Report. URL – [http://www.michigan.gov/documents/ALL0413\\_106196\\_7.pdf](http://www.michigan.gov/documents/ALL0413_106196_7.pdf).

and administrative services, group purchasing and more.<sup>3</sup> The Academy is not the only public school academy located in the geographic area of Wayne R.E.S.A. The Academy competes with these other public school academies, nearby local school districts and private schools for students.

### **Public School Academies Generally**

The operations of the Academy relate primarily to the ownership and operation of a public school academy with campuses located in Detroit and Redford, Michigan following termination of its operations in Romulus, Michigan as part of a move of its high school program to the Facility. Such operations are dependent on sufficient demand for such facilities, adequate revenues from enrollment at the facilities and control of expenses. The operation of a public school academy is highly regulated through the Charter, the Authorizing Body, and the Michigan Department of Education. A public school academy may not charge tuition to a student attending the academy. The failure of the Academy to meet the requirements of the regulations, termination, revocation or non-renewal of the Academy's Charter by the Central Michigan University Board of Trustees, or its designee, or the inability to secure a charter from another authorizing body would have a material adverse effect on the ability of the Academy to make Installment Payments. See "RISK FACTORS – Revocation or Nonrenewal of Charter."

### **Factors Associated with Education**

There are a number of factors affecting elementary and secondary school education in general, including the Academy, which could have an adverse effect on the Academy's financial position and its ability to make Installment Payments and other payments required under the Financing Agreement. These factors include, but are not limited to, increasing costs of compliance with federal or state regulatory laws or regulations, including, without limitation, the No Child Left Behind Act of 2001 laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any unionization of the Academy's work force with consequent impact on wage scales and operating costs of the Academy; the ability to attract a sufficient number of students; changes in existing statutes pertaining to the powers of the Academy and legislation or regulations which may affect program funding. The Academy cannot assess or predict the ultimate effect of these factors on its operations or its ability to make the Installment Payments and other payments due under the Financing Agreement.

### **Compliance with the No Child Left Behind Act of 2001**

In accordance with the No Child Left Behind Act of 2001 ("NCLB"), available at URL: <http://www.ed.gov/policy/elsec/leg/esea02/index.html>, on August 5, 2005, the Michigan Department of Education published a list of 438 schools out of the 2,402 public schools in the State of Michigan, identified as not making Adequate Yearly Progress ("AYP") in mathematics and/or English language arts. In compliance with NCLB, schools that are identified for improvement, not having met AYP for each of the next two years, must develop a two-year school improvement plan and submit a revised school improvement plan for review and approval. They must also use at least 10 percent of their Title I funds for each of the next two years for professional development to support the revised plan, in addition to certain other requirements. The Academy high school was listed as not making AYP for the second time, triggering the requirements discussed above<sup>4</sup>. Failure to meet AYP for years subsequent to the second year carries further consequences under Section 6316 of NCLB.

The No Child Left Behind Act strengthens requirements for state assessments, accountability systems, and support for school improvement. The law also establishes minimum qualifications for teachers and paraprofessionals. Failure of the Academy to meet the requirements of NCLB may have a material adverse effect on the Academy and its ability to make Installment Payments and other payments due under the Financing Agreement.

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<sup>3</sup> Source: Wayne R.E.S.A. URL: <http://www.resa.net>

<sup>4</sup> Source: [http://www.michigan.gov/documents/AYPReports\\_134472\\_7.zip](http://www.michigan.gov/documents/AYPReports_134472_7.zip).

### **No Taxing Authority**

The Academy is a Michigan public school academy and has no tax power. The Academy does not possess the ability to assess ad valorem taxes now or in the future. As such, the Academy is completely dependent upon State School Aid revenues to pay the Installment Payments and other payments due under the Financing Agreement. Any event that would delay, reduce or eliminate State School Aid monies from the State would have a material adverse effect on the ability of the Academy to make Installment Payments and other payments under the Financing Agreement coming due thereafter. See “RISK FACTORS” section, including “Revocation or Non-renewal of Charter,” “Delay in, Reduction, or Termination of State School Aid,” herein.

### **Legislative and Nonappropriation Risk**

Even though the State is obligated under the Michigan Constitution to support public education in the State, the State is not obligated to continue to finance public education through State School Aid or continue to support public education via public school academies. Any change in the Michigan Constitution of 1963, the enabling legislation that created public school academies or failure by the legislature of the State of Michigan to appropriate funds sufficient to fund the operation of public school academies could have a material adverse effect on the ability of the Academy to make Installment Payments and other payments under the Financing Agreement coming due thereafter.

Any event that would cause a delay, reduction or elimination of the State School Aid would have a material adverse effect on the ability of the Academy to make any payments due under the Financing Agreement coming due thereafter. See “RISK FACTORS – Delay in, Reduction, or Termination of State School Aid,” herein.

### **Limitation of Assigned Revenues**

Not more than 20% of the State School Aid funds to be received by the Academy for a given fiscal year may be used to make payments on the Bonds and any additional bonds issued under the Indenture.

### **Performance by Helicon Associates, Inc.**

The Academy has entered into a consultancy services agreement with Helicon, dated as of March 16, 2005, as amended, for certain business and educational services (the “Management Agreement”). Helicon has limited experience in the field of operating public school academies. No assurances can be made that Helicon will continue to operate school facilities or remain financially able to perform its obligations under the Management Agreement. If Helicon ceases to serve in its capacity, the Academy’s ability to continue its operations would in large part be dependent upon the Academy’s ability to operate, manage and maintain the Project and the Academy’s other campuses itself or to contract with another company competent to operate, manage, and maintain the Project and the Academy’s other campuses. Its failure to do so would materially adversely affect the Academy’s ability to make the Installment Payments and other payments due under the Financing Agreement. The Management Agreement is on file with the Underwriter. For additional information regarding Helicon, see “EXHIBIT A – MICHIGAN TECHNICAL ACADEMY Educational Service Provider.”

### **Future Need for the Project**

Changes of economic, social or other conditions could affect demographics of the Academy and reduce the Academy’s ability, need or willingness to utilize the Project. The Academy is not legally prohibited from constructing additional facilities at any time. Changes in future needs may have an adverse effect upon the willingness and ability of the Academy to budget money to continue the Financing Agreement.

### **Results of a Termination of the Financing Agreement**

In the event that the Academy should not pay money sufficient to pay the Installment Payments under the Financing Agreement, an event of default will have occurred and the Academy's indebtedness under the Financing Agreement may be accelerated and (1) the Mortgage foreclosed by the Trustee and (2) the Trustee may take possession and sell the property secured by the Security Agreement.

A potential purchaser of the Bonds should not assume that it will be possible to obtain proceeds from the foreclosure of the Mortgage and the sale of the Project or from the sale of property secured by the Security Agreement after a termination of the Financing Agreement and a foreclosure of the Mortgage, for an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon. If the Project is sold pursuant to a foreclosure sale under the Mortgage (and there is no assurance that there would be any purchaser upon a foreclosure sale) or the property secured by the Security Agreement is likewise sold for an amount less than the aggregate principal amount of and accrued interest on the Bonds, such partial payment may be the only payment to the Bondholders; upon such partial payment, no holder of any Bond shall have any further claim for payment from the Trustee.

### **Resale of Bonds/Lack of Secondary Market**

There can be no assurance that there will be a secondary market for the Bonds.

### **Remedies May be Unenforceable**

Remedies provided for in the Financing Agreement, the Mortgage, the Security Agreement, and the Indenture may be unenforceable as a result of the application of principles of equity or of state and federal laws relating to bankruptcy, other forms of debtor relief, and creditors' rights generally. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and sale or leasing with respect thereto. The enforcement of any remedies provided in the Financing Agreement, the Mortgage, the Security Agreement and the Indenture could prove both expensive and time consuming.

### **Inability to Liquidate or Delay in Liquidating the Project**

An event of default that has occurred and is continuing gives the Trustee the right of possession of, and the right to sell, the Project pursuant to a foreclosure sale under the Mortgage. The Project is intended to be used for the public school purposes of the Academy. Because of such use, a potential purchaser of the Bonds should not anticipate that a sale of the Project could be accomplished rapidly, or at all. Any sale of the Project would require compliance with the laws of the State of Michigan. Such compliance may be difficult, time-consuming and/or expensive. Any delays in the ability of the Trustee to foreclose on the Mortgage would result in delays in the payment of the Bonds.

The Project will be specifically constructed for use as a school facility and may not be readily adaptable to other uses. As a result, in the event of a sale of the Project, the number of uses that could be made of the property, and the number of entities that would be interested in purchasing the Project, could be limited, and the sale price would be thus affected. The location of the Project may also limit the number of potential purchasers. The ability of the Trustee to sell the Project to third parties, thereby liquidating the investment, would be limited as a result of the nature of the Project. For these reasons no assurance can be made that the amount realized upon any sale of the Project will be fully sufficient to pay and discharge the Bonds. In particular, there can be no representation that the cost of the property included in the Project constitutes a realizable amount upon any forced sale thereof. In the event the Trustee takes possession of the Project, the Project may be subject to real estate taxation.

### **Outstanding Obligations**

The Academy issued a state aid anticipation note pursuant to Section 1225 of the School Code to provide for operating costs for the 2005-2006 school year (the "Note"). The outstanding principal balance of the Note as of December 31, 2005 is \$3,505,455 maturing August 31, 2006. The monthly payment is \$459,543.17. The Note is a full faith and credit obligation of the Academy payable from State School Aid. The Academy has the right to borrow and pledge State School Aid for operating purposes in the future.

The Academy also has the following capital leases outstanding:

<u>Purpose</u>	<u>Monthly Payment</u>	<u>Lease Maturity</u>
Furniture, Fixtures and Equipment*	\$ 806.68	07/01/08
Textbooks	\$ 8,905.74	07/01/08
Furniture, Fixtures and Equipment*	\$ 7,227.85	07/01/08
Furniture, Fixtures and Equipment*	\$ 3,226.72	07/01/08
Building Improvements	\$10,673.48	06/01/12

\*Leases will be refinanced with bond proceeds.

### **Completion of the Project**

Michigan state law requires certain approvals be sought and obtained, including but not limited to a certificate of occupancy, in order for the Project to be used as a public school building. The Academy has covenanted to provide evidence that it has obtained a temporary certificate of occupancy for the Project at or prior to the closing of this transaction. While it is unlikely, in the judgment of the Academy and the Academy's management, that the Academy would be unable to secure a permanent certificate of occupancy following obtaining a temporary certificate of occupancy, the failure of the Academy to obtain the permanent certificate of occupancy could render the Project unable to accommodate students until all required approvals have been obtained. Such delay could have a material effect on the Academy's ability to make Installment Payments and other payments due under the Financing Agreement.

### **Damage or Destruction of the Project**

The Indenture requires that the Academy's property be insured against certain risks in certain amounts. There can be no assurance that the amount of insurance required to be obtained will be adequate or that the cause of any damage or destruction will be as a result of a risk. Further, there can be no assurance of the creditworthiness of the insurance companies from which the Academy will obtain the required insurance policies.

### **Determination of Taxability**

If a Determination of Taxability were to occur, the Bonds would be subject to mandatory redemption, as a whole and not in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date, on the earliest practicable date for which notice can be given following such determination. Although the Academy would be required to prepay the Bonds as set forth in the Indenture, there can be no assurance that the Academy will possess the ability to make the required payment.

### **Factors Associated with the Academy's Operations**

There are a number of factors affecting schools in general that could have an adverse effect on the Academy's financial position and ability to make the Installment Payments and other payments required under the Financing Agreement. These factors include, but are not limited to, increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental



quality, work safety and accommodation of persons with disabilities; any unionization of the Academy's workforce with consequent impact on wage scales and operating costs of the Academy; the ability to attract a sufficient number of students; changes in existing statutes pertaining to the powers of the Academy and disruption of the Academy's operations by real or perceived threats against the school, its employees or students. The Academy cannot assess or predict the ultimate effect of these factors on its operations or financial results of its operations or on its ability to make Installment Payments and other payments required under the Financing Agreement with respect to the Bonds.

### **Value of Property May Fluctuate**

The value of the Project at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the transaction. Real property values can fluctuate substantially depending in large part on the state of the economy. There is nothing associated with the Academy's property which would suggest that its value would remain stable or would increase if the general values of property in the community were to decline. Furthermore, as a limited-use building, any remedy exercised by the Trustee under the Mortgage could be expensive and time consuming. See "Inability to Liquidate or Delay in Liquidating the Project" herein. The Facility was appraised by Gerald Alcock Company, L.L.C., Ann Arbor, Michigan, for Comerica Bank as of August 26, 2005 (the "Appraisal"). The Appraisal concluded that the "as completed" market value of the fee simple title interest in the property, as described in the appraisal would be \$4,965,000.

### **Key Management**

The creation of, and the philosophy of teaching in, public school academies such as the Academy initially may reflect the vision and commitment of a few key persons who are on the Board of Directors and/or who make up the upper management of the Academy ("Key Directors/Managers"). Loss of such Key Directors/Managers could adversely affect the Academy's operations or financial results. It is anticipated that over time that public school academies will become less dependent upon the Key Directors/Managers. However, there can be no assurance that this will occur.

### **Revocation or Non-Renewal of Charter**

The Academy operates under a charter contract with the Central Michigan University Board of Trustees (the "University Board"). The charter contract provides the basis for the Academy to receive State School Aid funds. Unless renewed by the University Board, the Academy's charter contract will expire on June 30, 2008. Decisions to renew or not to renew the charter are at the sole discretion of the University Board. The University Board could choose not to renew the Academy's charter upon its expiration for any reason. Additionally, the University Board may unilaterally terminate the Academy's charter at any time if the Academy is not in substantial compliance with the charter or any provision of applicable law. The University Board may also revoke or terminate the charter pursuant to its terms based on grounds specified in the charter. See "EXHIBIT A – MICHIGAN TECHNICAL ACADEMY – Charter." The decision not to renew or to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any State agency. In the event that the Academy's charter is revoked or not renewed, the ability of the Academy to make any payments due under the Financing Agreement would be adversely affected and the Academy could be forced to cease operations.

**IN THE EVENT THAT THE UNIVERSITY BOARD WERE TO REVOKE, CANCEL, NOT RENEW OR EXTEND THE ACADEMY'S CHARTER, OR IF THE ACADEMY WERE UNABLE TO SECURE ANOTHER AUTHORIZING BODY, THE ABILITY OF THE ACADEMY TO MAKE INSTALLMENT PAYMENTS UNDER THE FINANCING AGREEMENT COMING DUE THEREAFTER WOULD BE MATERIALLY ADVERSELY AFFECTED.**

Pursuant to Section 18b of the State School Aid Act, in the event that the Academy (i) is ineligible to receive funding under the State School Aid Act for 18 consecutive months; (ii) the Academy's charter is revoked; or (iii) the Academy's charter is not reissued by the University Board, then property, including title to such property, acquired substantially with funds received from the State pursuant to the State School Aid Act is required to be transferred to the State. The State Treasurer, or his or her designee, is authorized to dispose of property transferred to the State pursuant to Section 18b of the State School Aid Act. Except as otherwise provided in Section 18b of the State School Aid Act, the State Treasurer shall deposit in the state school aid fund any money included in that

property and the net proceeds from the sale of the property or interests in the property, after payment by the State Treasurer of a public school academy debt secured by the property or interest in the property.

### **Environmental Regulation**

The high school portion of the Project located at 23750 Elmira, Redford, Michigan (for purposes of this section, the "Facility"), and surrounding site are subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability to the owner of such Facility for investigating and remediating adverse environmental conditions on or relating to the Facility, whether arising from preexisting conditions or conditions arising as a result of the activities conducted in connection with the ownership and operation of the Facility. Costs incurred by the Academy with respect to environmental liability could adversely impact its financial condition and its ability to own and operate its school Facility. Clayton Group Services, Inc., Novi, Michigan ("Clayton") performed a Phase I Environmental Site Assessment (the "Phase I Assessment") of the Facility and surrounding site for Helicon. The Phase I Assessment was undertaken to identify areas of potential environmental concern or evidence of chemical contamination within the limits of the Facility and site and/or as visually observed immediately adjacent to such property. In its report dated February 2, 2005 (the "Phase I Report"), Clayton stated that the Environmental Site Phase I Assessment revealed evidence of the following apparent "Recognized Environmental Conditions" ("RECs") (defined as the presence or likely presence of any hazardous substances or petroleum products on a property under conditions that indicate an existing release, a past release, or a material threat of a release of any hazardous substances or petroleum products into the structures on the property or into the soils, groundwater, or surface water of the property) within the Facility's property: (i) historical presence of a fuel oil underground storage tank ("UST") located in a courtyard located outside the eastern exterior wall of the building, in which confirmatory soil samples revealed elevated levels of benzene, toluene, ethylbenzene and xylenes and total petroleum hydrocarbons; (ii) current and historical use of the garage portion of the subject property for light automotive and mechanical repair; (iii) historical presence of a gasoline service station on a northwestern adjacent property and the presence of an automobile sales and service operation on the northern and western adjacent properties, which the Michigan Department of Environmental Quality has determined has caused groundwater containing the presence of benzene, ethylbenzene, methyl tertiary butyl ether, xylenes, 2,4-dimethylphenol and naphthalene. Clayton has issued a reliance letter to the Academy with respect to the Phase I Assessment.

Clayton completed a Baseline Environmental Assessment ("BEA") for petitioner ACME Properties Group, LLC on June 30, 2005 and submitted the BEA to the State Department of Environmental Quality to be affirmed. The Academy is required to obtain a BEA within 45 days after it obtains ownership of or becomes the operator of the Facility. On January 25, 2006, Clayton completed a BEA on behalf of the Academy with regard to the Facility and has submitted it to the Michigan Department of Environmental Quality for affirmation.

## **TAX MATTERS**

### **General**

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that certain corporations must take into account interest on the Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority and the Academy comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Academy, on behalf of itself and the Authority, has covenanted to comply with all such requirements. Bond Counsel and the Attorney General will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

Prospective purchasers of the Bonds should be aware that (i) interest on the Bonds is included in the effectively connected earnings and profits of certain foreign corporations for purposes of calculating the branch

profits tax imposed by Section 884 of the Code, (ii) interest on the Bonds may be subject to a tax on excess net passive income of certain S corporations imposed by Section 1375 of the Code, (iii) interest on the Bonds is included in the calculation of modified adjusted gross income for purposes of determining taxability of social security or railroad retirement benefits, (iv) the receipt of interest on the Bonds by life insurance companies may affect the federal tax liability of such companies, (v) in the case of property and casualty insurance companies, the amount of certain loss deductions otherwise allowed is reduced by a specific percentage of, among other things, interest on the Bonds, (vi) registered owners acquiring the Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income, (vii) the receipt or accrual of interest on the Bonds may cause disallowance of the earned income credit under Section 32 of the Code, and (viii) registered owners of the Bonds may not deduct interest on indebtedness incurred or continued to purchased or carry the Bonds, and financial institutions may not deduct that portion of their interest expense allocated to interest on the Bonds.

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals that could cause the interest on the Bonds to be subject directly or indirectly to federal or State of Michigan income taxation, adversely affect the market price or marketability of the Bonds, or otherwise prevent the registered owners from realizing the full current benefit of the status of the interest thereon.

#### **Tax Treatment of Accruals on Original Issue Discount Bonds**

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Bonds is sold and the amount payable at the stated redemption price at maturity thereof constitutes "original issue discount." Such discount is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of registered owners of the Bonds who purchase such Bonds after the initial offering of a substantial amount thereof. Registered owners who do not purchase such Bonds in the initial offering at the initial offering and purchase prices should consult their own tax advisors with respect to the tax consequences of ownership of such bonds.

All registered owners of the Bonds should consult their own tax advisors with respect to computation of original issue discount and the allowance of a deduction for any loss on a sale or other disposition to the extent that such loss is attributable to accrued original issue discount.

**INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS AND THE TAX CONSEQUENCES OF THE ORIGINAL ISSUE DISCOUNT OR PREMIUM THEREON, IF ANY.**

#### **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the authorization, issuance and sale by the Authority of the Bonds will be passed upon by Dickinson Wright, PLLC, Bloomfield Hills, Michigan, Bond Counsel, and the Attorney General of the State of Michigan. The proposed form of opinion of Bond Counsel is attached hereto as Exhibit E. The proposed form of opinion of the Attorney General of the State of Michigan is attached hereto as Exhibit F. Copies of the

approving opinion of Bond Counsel and of the Attorney General will be available at the time of the delivery of the Bonds. Certain legal matters will be passed upon for the Academy by Dickinson Wright, PLLC, Bloomfield Hills, Michigan, and by Collins & Blaha, P.C., Farmington Hills, Michigan in its capacity as counsel to the Underwriter.

## **UNDERWRITING**

The Bonds are being purchased by the Underwriter pursuant to a purchase contract at prices which, if the Bonds are sold at the prices and yields shown on the inside cover page, will result in Underwriter's compensation of \$139,000.00. The obligation of the Underwriter to accept delivery of the Bonds is subject to various conditions contained in the purchase contract. The purchase contract provides that the Underwriter will purchase all of the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers, banks and others at prices lower than the initial offering prices, and such initial offering prices may be changed from time to time by the Underwriter.

## **LITIGATION**

There is no litigation of any nature pending or threatened against the Academy to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds or the application of the proceeds thereof toward the costs of the Project, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Academy taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security for the Bonds or the existence or powers of the Academy.

There is no litigation pending or, to the knowledge of the Academy, threatened against the Academy, wherein an unfavorable decision would adversely affect the ability of the Academy to carry out its obligations under the Financing Agreement or the Indenture or would have a material adverse impact on the financial position of the Academy.

## **CONTINUING DISCLOSURE**

The Academy will execute and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), with respect to the Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and Beneficial Owners (as defined in the Continuing Disclosure Agreement) of the Bonds and in order to assist the Underwriter in complying with its obligations pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Continuing Disclosure Rule"). See "EXHIBIT G – FORM OF CONTINUING DISCLOSURE AGREEMENT."

Pursuant to the Continuing Disclosure Agreement, the Academy will agree to provide, or cause to be provided, annually to designated information repositories certain quantitative financial information and operating data of the type specified in the Continuing Disclosure Agreement (the "Annual Report"); and to provide in a timely manner to designated information repositories notice of the occurrence of certain events, if material (within the meaning of the Continuing Disclosure Rule), and of any failure to provide the Annual Report when due. The Continuing Disclosure Agreement does not require that information be provided to registered owners or Beneficial Owners of the Bonds, but rather requires only that such information be provided to certain information repositories.

## **BONDS NOT A DEBT OF STATE**

The Bonds will not constitute or create any debt or debts, liability or liabilities on behalf of the State or any political subdivision thereof, other than a limited obligation of the Authority, nor a loan of the credit of the State or a pledge of the faith and credit of the State or of any such political subdivision, but will be payable solely from the funds provided therefor. The issuance of Bonds under the Indenture will not directly, indirectly or contingently obligate the State of Michigan, the Authority, or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor, or to make any appropriation for their payment. The Authority has no taxing power.

## **RATING**

The Bonds have been assigned a rating of "BB" by Standard and Poor's Rating Services ("S&P"). Such rating reflects only the views of S&P, at the time such rating was given, and the Authority makes no representation as to the appropriateness of the rating. Any explanation of the significance of the rating may be obtained only from S&P. The Academy furnished to S&P information and materials relating to the Bonds and itself, certain of which information and materials have not been included herein. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn. Revision, qualification or withdrawal of the rating can be expected to have an adverse affect on the market price of the Bonds.

## **FINANCIAL STATEMENTS**

The financial statements of the Academy, as of and for the year ended June 30, 2005, included in this Official Statement have been audited by Grant, Milman & Johnson, P.C., independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Grant, Milman & Johnson, P.C., which has not been asked to undertake any additional review in connection with the preparation of this Official Statement. The Academy is not aware of any facts that would make the audited financial statements misleading.

## **MISCELLANEOUS**

The Bonds are intended to be exempt securities under the Securities Act of 1933, as amended (the "1933 Act"), and the offer, sale and delivery of the Bonds does not require registration under the 1933 Act or qualification of the Indenture under the Trust Indenture Act of 1939. The Academy has agreed that, during the course of the transaction and prior to the sale of the Bonds, potential investors may ask questions of and receive answers from its representatives concerning the terms and conditions of the offering and that potential investors may obtain from it any additional information necessary to verify the accuracy of the information furnished, in each case to the extent it possesses such information or can acquire it without unreasonable effort or expense. Any request for information may be directed to the Underwriter.

The Academy has furnished the information herein relating to itself. The Authority has furnished the information herein relating to itself. The Underwriter has furnished the information in this Official Statement with respect to the offering prices of the Bonds and the information under the caption "UNDERWRITING."

All quotations from, and summaries and explanations of, the Indenture and other documents referred to herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. All references herein to the Bonds are qualified by the definitive forms thereof and the information with respect thereto contained in the Indenture. This Official Statement shall not be construed as constituting an agreement with purchasers of the Bonds. The cover page, introductory statement and the attached Exhibits are part of this Official Statement. All information contained in this Official Statement, including the Exhibits, is subject to change and/or correction without notice and neither the delivery of this Official Statement nor any sale made hereunder creates any implication that the information contained herein is complete or accurate in its entirety as of any date after the date hereof.

**ANY STATEMENTS MADE IN THIS OFFICIAL STATEMENT INVOLVING MATTERS OF OPINION OR ASSUMPTIONS OR ESTIMATES, WHETHER OR NOT SO EXPRESSLY STATED, ARE SET FORTH AS SUCH AND NOT AS REPRESENTATIONS OF FACT AND NO REPRESENTATION IS MADE THAT ANY OF THE ESTIMATES OR ASSUMPTIONS WILL BE REALIZED.**

**MICHIGAN TECHNICAL ACADEMY**

By: /s/David McHugh

Its: President

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# **Exhibit A**

**MICHIGAN TECHNICAL ACADEMY**

**EXHIBIT A<sup>1</sup>**  
**MICHIGAN TECHNICAL ACADEMY**

**GENERAL**

Michigan Technical Academy (the "Academy") is a public school academy and governmental agency of the State of Michigan, organized pursuant to Part 6A of Act No. 451 of the Public Acts of 1976, Michigan Compiled Laws ("M.C.L.") Section 380.501 et. seq. (the "Revised School Code") and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. Section 450.2101 et. seq.

The Academy began operations in 1995 as one of Michigan's first automotive focused public school academies, offering grades 10 through 12 to only 30 students. The Academy experienced rapid growth and in the year 2000, added grades Kindergarten through 9. The Academy now operates out of four campuses located in Detroit, Michigan and Redford Township, Michigan as described below under "FACILITIES" and educates 1,158 full-time students, and 177 full-time equivalent students through a shared time program with area private schools. See discussion below under SHARED TIME PROGRAM.

The Academy is governed by a volunteer Board of Directors and operates under a charter contract (the "Charter") with the Central Michigan University ("CMU") Board of Trustees, its authorizing body. The CMU Board of Trustees recently renewed the Academy's charter effective July 1, 2005 for a three year term expiring June 30, 2008 unless sooner terminated in accordance with the terms of the Charter (see discussion below under the caption "THE CHARTER AGREEMENT".)

Many of the Academy's students are considered at risk and qualify for free or reduced lunch and come from Detroit and communities throughout Wayne County, Michigan. The atmosphere created at the Academy enables the students to become caring, well-rounded individuals who have an appreciation for character, social development and academic achievement. Parents and guardians are asked to volunteer a minimum of 20 hours per school year as a condition of their child's enrollment. Approximately 95% of parents participate in Parent/Teacher conferences.

**BOARD OF DIRECTORS**

The governing body for the Academy currently consists of consists of seven (7) members (currently with one vacancy). Vacancies in office are determined and filled pursuant to the provisions set forth in the Academy's Bylaws. The current Academy Board members are as follows:

**David McHugh - President**

David McHugh currently serves as President of the Board and has served on the Board since 2002. Mr. McHugh is President of David E. McHugh Construction, a General Contractor & Developer. Mr. McHugh is also President of McHugh Properties, a property management firm for Industrial, Commercial, Multi-Family Senior Housing and Group Homes. His civic and community involvement includes serving as Committee Chairman and founder of Boy Scout Troop 326 of White Lake. Mr. McHugh is also a very active member of St. Patrick Catholic Church, serving on many boards. Mr. McHugh's term expires September 2006.

**Michael McAuliffe - Vice President**

Michael McAuliffe serves as Vice President of the Board. He has served in that position since December of 2001. Mr. McAuliffe is currently employed by L.W. Norman & Associates where he works as a Senior Claims Adjuster. Mr. McAuliffe has over twenty-four years of experiences in the insurance claims / investigation field. Prior

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<sup>1</sup> Information included in Exhibit A of this Official Statement was obtained from the Academy unless otherwise noted.



to Mr. McAuliffe joining the insurance industry, Mr. McAuliffe was a high school math teacher from 1970-1977. Mr. McAuliffe's term expires September 2006.

#### **Melvin E. Byrd - Secretary**

Mr. Byrd serves as the Board Secretary. Mr. Byrd spent thirty two years with the Michigan Department of Civil Rights where he last served as the Director of Community Services. In addition to being the Secretary for Michigan Technical Academy, Mr. Byrd sits as the President of the Board of Directors of Don Bosco Hall. Don Bosco Hall is a private non-profit agency established in 1954 to respond to the human service needs of children, youth and families within the Metropolitan Detroit area. From 1993-1997, Mr. Byrd was the Executive Director for the Detroit Association of Black Organizations. Additionally, Mr. Byrd was an instructor at both Wayne County Community College and Jordan College. Mr. Byrd's term expires in 2009.

#### **Gilda Ford - Member**

Ms. Ford is a certified teacher and has been a board member since 2004. Ms. Ford holds a Bachelors Degree in Social Science from Madonna University, and a Masters degree in Elementary Education from Michigan State University. Her term with the Board expires September 2008.

#### **Frederick H. Kaehler – Member**

Mr. Kaehler has been a board member since 1999. Mr. Kaehler retired from Chrysler Motors in 1991 where he managed the Chrysler Engineering Power Train Development Laboratory in Highland Park, Michigan. Mr. Kaehler holds a Bachelor of Science from Wayne State University, a Masters in Engineering from the Chrysler Institute, and a Masters in Business Administration from Wayne State University. Mr. Kaehler's term with the Board expires September 2007.

#### **Kurt Siebenaller, CPA – Treasurer**

Mr. Siebenaller currently serves as Treasurer of the Board and has been a member of the Board of Directors since 2003. Mr. Siebenaller is a Certified Public Accountant and Manager at UHY Advisors specializing in year-end tax planning strategies for corporate and individual clients. Mr. Siebenaller holds a Bachelor of Science in Accounting from Michigan State University. His term on the Board expires in 2007.

### **MISSION STATEMENT**

At the Kindergarten through 8<sup>th</sup> grade campuses, the mission of the Academy is to provide a nurturing, structured environment, where all students will be empowered through a well-rounded education, emphasizing academic excellence, social skills and moral character. At the high school level, the mission is necessarily expanded to provide a learning environment in which all students will be challenged to reach their potential as involved citizens and life-long learners and to develop the academic, mechanical and life skills necessary to successfully compete in and contribute to the diverse global workplace with an emphasis on automotive technology.

### **FACILITIES**

The Academy serves grades K through 12, and currently operates from four leased locations:

#### **Grades K through 2**

The lower elementary campus is designated and authorized to operate grades K through 2 at 19900 Evergreen Road, Detroit, MI 48219. This facility was added in 2004 and consists of approximately 27,417 square feet on one level containing 16 classrooms, a multi-purpose room, library, kitchen and pantry, adequate bathroom facilities, as well as a conference room, offices and teacher's lounge.

### **Grades 3 through 5**

The upper elementary campus serves grades 3 through 5, is located at 19940 Mansfield, Detroit, MI 48235 and consists of approximately 41,472 square feet on three levels, including the basement. This facility was added in 2002. The first level houses two classrooms, two offices, a library, a large multi-purpose room, three restrooms, and three storage rooms. The second level consists of twelve classrooms, an office, two student restrooms, and two staff restrooms. The lower level/basement is used for storage.

### **Grades 6 through 8**

The middle school campus serves grades 6 through 8 and consists of three levels, including a basement. It is located at 19780 Meyers, Detroit, MI 48235. This facility was added in 2000. The first level contains six classrooms, offices, a copy room, a teacher's lounge, gymnasium/multi-purpose room, student and staff restrooms, and storage areas. The second level contains six classrooms, a library, a resource room, computer lab, a student restroom, and storage closet. The lower level/basement has a large cafeteria, lounge, and kitchen.

### **Grades 9 through 12**

The current high school campus is located at 28675 Northline Road, Romulus, MI 48174. The high school facility consists of an approximately 17,000 square foot industrial building configured to house an automotive bay, three automobile repair areas, four classrooms, conference and office space. An additional modular classroom containing six classrooms and restroom facilities consisting of approximately 6,664 square feet is used by the high school and is situated on the existing real property.

When the financing is complete, the high school will move from its current location to an approximately 56,000 square foot facility on 8.22 acres located at 23750 Elmira, Township of Redford, Wayne County, Michigan 48239 (the "New Site"). The Academy will terminate its current lease and purchase the New Site. The New Site will contain 15 academic classrooms, 5 automotive classrooms, 6 spacious automotive bays, faculty offices, a cafeteria and ample administrative space and parking. The New Site will be large enough to accommodate the 277 students currently enrolled at the high school with excess space to accommodate expanded enrollment.

## **CURRICULUM**

The Academy's curriculum is in alignment with the Michigan Curriculum Framework Content Standards and Benchmarks. The K-8 educational program is designed to provide students with the literacy and numerical skills to ensure success in any secondary program. The Academy places particular emphasis on Language Arts and technology applications are integrated into the science and math curricula. Each building at the elementary level has its own technology laboratory and all students receive direct technology instruction for at least one hour per week. The average class size for the K-8 program during the 2004-2005 academic year was 22 to 25 students.

At the High School level, the Academy has a specialized automotive program. Students are required to complete courses in each of the four core subject areas: Math, English Language Arts, Social Studies and Science. Additionally, the Academy offers eight courses in Automotive Technology, certified by the National Automotive Technicians Educational Foundation ("NATEF"), and the National Institute for Automotive Service Excellence ("ASE"). Students may also select courses in Computer Science and Computer Assisted Design ("CAD"). Last year, the high school also instituted a new technology-centered curriculum pathway, adding courses in Electricity, Electronics Principles and Computers and Electronics Repair. All high school students are enrolled in college level equivalent courses. In conjunction with Wayne County Community College, over 31 credit hours are transferable to receive college credit. The average class size at the high school level for the 2004-2005 academic year was 33 students.

## **EXTRACURRICULAR ACTIVITIES**

The Academy provides various extracurricular activities to engage student strengths and interests. The elementary school offers cheer clinic, dance, cubs scouts, journalism/yearbook, choir and basketball. The middle

school offers academic games, robotics, sister to sister mentoring, brother to brother mentoring, cheerleading, girls and boy's basketball, and choir.

## **THE SHARED TIME PROGRAM**

The Academy also provides educational opportunities to non-public school students in the Metro Detroit area through its Shared Time Program. It is a unique program that provides classroom instruction in non-core subject areas of art, computer technology, health and physical education, music and Spanish. The program supports sixteen (16) area non-public schools and employs twenty-one (21) teachers who travel to the schools on a rotating schedule to teach the classes to the non-public school students participating without charge to the enrolled school. The program is supported by State School Aid that is paid to the Academy based on the number of full-time equivalent ("FTE") students enrolled in the program through their respective schools. There are currently 1600 students being taught elective non-core subjects under this program which equates to 177 FTEs. Net revenues generated by the program are used to support Academy operations. The Academy heavily markets this program and expects enrollment to continue to increase to 200 FTE's by the 2006-2007 school year.

## **THE PROJECT**

The Academy has outgrown its current high school facilities. The proceeds of the Bonds will be used to acquire a newly renovated and expanded facility located at 23750 Elmira, Redford Township, Michigan from Acme Properties Group, LLC. This New Site will serve as its new high school and will be a state-of-the-art facility, contain approximately 56,000 square feet consisting of 15 academic classrooms; an 18,000 square foot automotive shop with 5 automotive classrooms, 6 spacious automotive bays, a tool crib and a diagnostic equipment room; faculty offices; a cafeteria; and ample administrative space and parking. The New Site will be owned by the Academy and operated by the Academy except approximately 10,000 square feet of office space currently under lease to the Judson Center, Inc., a Michigan nonprofit social services agency. The Judson Center's lease expires December 31, 2006, and may be extended at the Academy's option. The bond financing will also allow the Academy to pay for the costs of issuing the bonds, to purchase and install certain automotive and classroom equipment such as tools, automotive hoists, furniture, and computers, and to allow the Academy to refinance certain existing equipment leases for equipment to be used at the New Site and the Academy's other campuses located at 19990 Evergreen, Detroit, Michigan, 19940 Mansfield, Detroit, Michigan, and 19780 Meyers, Detroit, Michigan.

## **THE CHARTER AGREEMENT**

The Academy operates under a charter contract (the "Charter") with the Central Michigan University ("CMU") Board of Trustees, its authorizing body. As such, CMU is responsible for overseeing the Academy in complying with its Charter and other applicable state and federal laws pertaining to Michigan charter schools. CMU receives 3% of the Academy's state aid funds for providing such oversight and acting as the Academy's fiscal agent. As a matter of Michigan law, decisions to renew or not renew the Academy's Charter are in the sole discretion of the CMU Board of Trustees (the "CMU Board"). The Academy's Charter may be terminated, suspended or revoked by CMU at any time prior to the expiration of the charter term. On September 23, 1997, the Attorney General of Michigan issued a formal opinion that an authorizing body's decision to revoke a charter or decline to renew a charter for the operation of a public school academy is not subject to judicial review under State law.

Under the terms and conditions of the Charter, the Charter may be revoked by the CMU Board upon a determination by the CMU Board that one or more of the following statutory grounds for revocation has occurred:

- a) Failure of the Academy to abide by and meet the educational goals set forth in the Charter; or
- b) Failure of the Academy to comply with all state and federal law applicable to public school academies ("Applicable Law"); or
- c) Failure of the Academy to meet generally accepted public sector accounting principles; or
- d) The existence of one or more other grounds for revocation as specified in the Charter.

In addition to the statutory grounds for revocation set forth above, the CMU Board may also revoke the Charter, pursuant to procedures set forth in the Charter, upon a determination by the CMU Board that one or more of the following has occurred:

- a) The Academy is insolvent, has been adjudged bankrupt, or has operated for two or more school fiscal years with a fund balance deficit; or
- b) The Academy has insufficient enrollment to successfully operate a public school academy, or the Academy has lost more than 50% of its student enrollment from the previous school year; or
- c) The Academy defaults in any of the terms, conditions, promises or representations contained in or incorporated into the Charter; or
- d) The Academy files amendments to its Articles of Incorporation with the Michigan Department of Labor and Economic Growth, Bureau of Commercial Services without first obtaining CMU Charter School Office approval; or
- e) The CMU Charter Schools Office Director discovers grossly negligent, fraudulent or criminal conduct by the Academy's applicant(s), directors, officers, employees or agents in relation to their performance under the Contract; or
- f) The Academy's applicant(s), directors, officers, employees or agents have provided false or misleading information or documentation to the CMU Charter School Office in connection with the CMU Board's approval of the Charter application, the issuance of the Charter, or the Academy's reporting requirements under the Charter or applicable law.

The Charter also provides that CMU may immediately suspend the Charter, pending completion of procedures set forth in the Charter pertaining to revocation of the Charter, if the CMU Charter School Office Director determines that probable cause exists to believe that the Academy:

- a) Has placed staff or students at risk; or
- b) Is not properly exercising its fiduciary obligations to protect and preserve the Academy's public funds and property; or
- c) Has lost its right to occupancy of the physical facility for the Academy and cannot find another suitable physical facility for the Academy prior to the expiration or termination of its right to occupy its existing physical facilities; or
- d) Has failed to secure or lost the necessary fire, health and safety approvals as required by the Charter; or
- e) Has willfully or intentionally violated the Charter or Applicable Law; or
- f) Has violated the requirements described in (e) and (f) of the section immediately above (regarding revocation).

The Charter provides procedures pursuant to which the Charter may be revoked by the CMU Board. Those procedures require the CMU Charter School Office to issue a notice of intent to revoke notifying the Academy of CMU Charter School Office's reasonable belief of grounds for revocation. The Academy's Board has 30 days to respond in writing, and must include a plan for correcting any admitted non-compliance. Within 15 days of receipt of the Academy's response, CMU Charter School Office formulates its own plan of correction, and in so doing may adopt, modify or reject some or all of the plan proposed in the Academy's response. The revocation proceedings are closed if (i) the Academy Board's denial of non-compliance is persuasive, (ii) the non-compliance has been corrected

by the Board, or (iii) the Academy has successfully completed the plan of correction. CMU Charter School Office Director may initiate a revocation hearing before a CMU Charter Schools Hearing Panel ("Hearing Panel") if none of these conditions are met, or if CMU Charter School Office determines that a plan of correction cannot be formulated, or if the Academy has been issued multiple or repeated notices of intent to revoke. The Hearing Panel convenes within 30 days after the hearing and makes a recommendation concerning revocation which is submitted to the CMU Board. The CMU Board may approve, reject or modify all or any part of the Hearing Panel's recommendation. If the CMU Board votes to revoke the Charter, the revocation may be immediately effective, and there is no appeal process provided. The CMU Charter School Office Director may also immediately suspend the Charter (upon a determination that one of the grounds set forth above exists) pending completion of the revocation procedures described above. In addition, the Hearing Panel may immediately convene a revocation hearing in accordance with the above described procedures and has the authority to accelerate the time line for revoking the Charter with five (5) day notice to the Academy Board, and may recommend revocation of the Charter if the Hearing Panel determines that the Academy Board has continued to engage in conduct or activities that are covered by the suspension notice.

## **EDUCATIONAL SERVICE PROVIDER**

### **Helicon Associates, Inc.**

The Academy has entered into a consultancy services agreement with Helicon Associates, Inc. ("Helicon") pursuant to which Helicon manages the affairs of and provides educational services to the Academy. Helicon has served as educational service provider to the Academy since 1999. The Academy and Helicon renewed the consultancy services agreement on July 1, 2005, and the term of that contract is three years. Helicon is a Michigan corporation that specializes in providing public school academies with educational services and products, including business management, curriculum, educational programs, teacher training and technology. Helicon provides to the Academy teacher services and support personnel services; bookkeeping, accounting and business services; fiscal compliance services; accounts payable and payroll services; salary, wage and benefits administration services; personnel management, and records management; and purchasing, facilities and maintenance services. Helicon may, at the option of the Academy's Board of Directors, provide additional services to the Academy, including curriculum development, program development and technology development. Currently, Helicon subcontracts with MJ Management, Trenton, Michigan, for the provision of personnel services. All Academy faculty and staff are employed by or are contractors of Helicon.

Helicon currently provides services to 14 public school academies in Michigan, including the Academy. Helicon's mission is to become the premier education management organization in the State. Helicon was founded in 1993. Its executive offices are located at 2525 West Jefferson, Trenton, Michigan 48183.

### **Summary of the Consultancy Services Agreement**

The following is a brief summary of certain provisions of the Consultancy Services Agreement ("Agreement") between the Academy and Helicon. The following summary is not intended to be definitive, and it is not a complete explanation of all provisions of the Agreement. Reference should be made to the Agreement, which is available from the Underwriter, for a complete recital of its terms.

### **Agreement to Operate: Term of the Agreement**

Pursuant to the terms of the Agreement, Helicon has agreed to provide administrative, personnel and business services to the Academy necessary for the operation, maintenance and management of the school, and to provide educational services for the pupil enrolled at the Academy.

The term of the Agreement is for the period commencing July 1, 2005 and ending on June 30, 2008, except that either party may terminate the Agreement with cause prior to the conclusion of the term, in the event the other party fails to remedy a material breach of this Agreement within thirty days after receipt of a written notice from the party desiring to terminate the Agreement.

### **Service Provided by Helicon**

Under the terms of the Agreement, Helicon is required to provide the following business and administrative

support services, which services are to be provided by independent contactors or employees of Helicon at the sole discretion of Helicon, unless the Academy's Board of Directors requires otherwise: (a) teacher services and support personnel; (b) bookkeeping, accounting and business services; (c) fiscal compliance services; (d) accounts payable and payroll services; (e) salary, wages and benefits administration services; (f) personnel/records management; and (g) purchasing, facilities and maintenance services. Helicon may, at the option of the Academy's Board of Directors, provide additional services to the Academy, including curriculum development, program development and technology development.

Currently, the Academy employs 5 administrators, 6 administrative assistants, 72 full-time teachers, 33 aides and additional employees, provided by Helicon through a subcontract with MJ Management of Trenton, Michigan, including a reading consultant, special education coordinator, school psychologist, 2 social workers, curriculum director and technology professionals.

### **Compensation of Helicon**

As compensation for its services, Helicon is paid by the Academy (i) an annual fee equal to the number of students for which the Academy receives State Aid Act funds times \$375.00, plus reimbursement of additional fees and expenses paid by Helicon, which fee shall be adjusted on the anniversary date of the Agreement for the following 12-month period by the addition of the percentage increase in the average cost of living allowance for Detroit wage earners as reported by the Michigan Department of Labor; (ii) an operational services fee, payable monthly, equal to the cost of salaries, fringe benefits and local, state and federal income taxes incurred by Helicon in providing teacher services and support personnel as well as the cost of insurance premiums; and (iii) reimbursement of expenses incurred by Helicon for the purchase of fixed assets for the benefit of the Academy.

### **Indemnification**

Pursuant to the terms of the Agreement, Helicon has agreed to indemnify and hold harmless the Academy and its officers, directors, employees, agents and representatives, from and against any and all liabilities, costs, causes of action, damages and expenses (including all reasonable attorney's fees and costs of litigation) which the Academy may incur and which arise out of the acts or omissions of Helicon or its directors, officers, employees, agents and representatives.

## **ENROLLMENT**

The Academy began operations in September of 1995. Prior to 2000-2001, the Academy operated only at the high school campus. During the 2000-2001 school year, the Academy expanded its grade offerings to include an elementary school and middle school program at the Meyers campus, and grade 9 at the high school location. In the 2003-2003 school year, the Academy expanded its capacity by adding a third building to serve grades 5-8, with grades K-4 remaining at the Meyers building. Finally, during the 2004-2005 school year the Academy expanded to include a fourth building school building and rearranged its site offerings to include buildings serving grades K-2, 3-5, and 6-8. The following table sets forth data provided by the Academy regarding its historical and projected enrollment.

**TABLE 1: HISTORICAL AND PROJECTED ENROLLMENT**

<b>Grades</b>	<b>2000-2001</b>	<b>2001-2002</b>	<b>2002-2003</b>	<b>2003-2004</b>	<b>2004-2005</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010</b>
Full –time K-5	224	262	384	369	491	562	600	600	600	600
Full –time 6-8	49	61	184	201	282	319	320	320	320	320
Full- time 9-12	86	144	159	210	255	277	345	405	455	505
Total Full-time	359	467	727	780	1028	1158	*1265	*1325	*1375	*1425
Shared Time FTEs				91	176	177	200	200	200	200
Total	359	467	727	871	1204	1335	1,465	1,525	1,575	1,625

Source: The Academy; data presented for 2000-01 through 2005-06 is actual data as of the beginning of those school years. Data presented for 2006-07 through 2009-10 is projected by the Academy.

\* The Academy's Charter currently limits the Academy's maximum enrollment to 1,200 full-time students. In connection with the school facilities expansion, the Academy has applied to CMU for an increase to accommodate the projected enrollment. The enrollment numbers for school years 2006-07 through 2009-10 are based on projected numbers as of the beginning of those school years not state membership calculation.

The Academy believes that its enrollment performance since 2000-2001 tracks a demand within the student demographic principally served by the Academy for school choices other than those presented by the Detroit Public School District (“DPS”).

**TABLE 2: COMPARATIVE ENROLLMENT GROWTH  
DETROIT PUBLIC SCHOOLS AND THE ACADEMY**

<b>Year</b>	<b>DPS</b>	<b>Percentage Increase/Decrease</b>	<b>MTA</b>	<b>Percentage Increase/Decrease</b>
2000-01	119,599		359	
2001-02	115,054	-3.8%	467	30.1%
2002-03	111,001	-3.5%	727	55.7%
2003-04	120,629	8.7%	780	7.3%
2004-05	110,203	-8.6%	1028	31.8%

Source: The Academy, from data made available by the Michigan Department of Education.

**TABLE 3: STUDENT RETENTION RATES BY GRADE**

	<b>Grades K - 12</b>			
<b>2002-2003*</b>	<b>89%</b>			
<b>2003-2004*</b>	<b>95%</b>			
	<b>Grades K-2</b>	<b>Grades 3-5</b>	<b>Grades 6-8</b>	<b>Grades 9-12</b>
<b>2004-2005</b>	<b>90%</b>	<b>90%</b>	<b>92%</b>	<b>94%</b>

\*Grade level retention data not available for 2002-03 and 2003-04 school years.

#### **WAIT LIST INFORMATION**

The following table sets forth data provided by the Academy regarding the number of upper elementary, middle and high school students currently on the waiting list for the Academy for the 2005-06 school years. The Academy does not have a waiting list for the lower elementary school.

**TABLE 4: CURRENT WAITING LIST**

<b>Grade</b>	<b>2005-06</b>
K-2	0
3	2
4	1
5	2
6	32
7	49
8	14
9	6
10	6
11	1
12	0

## **SERVICE AREA AND COMPETING SCHOOLS**

The majority of the Academy's students reside in the City of Detroit (the "City"). The Academy currently serves both the east side and west side of the City as well as the Wayne County communities of Dearborn Heights, Dearborn, Lincoln Park, Romulus, Garden City, Melvindale, Taylor and Allen Park.

Because the majority of the Academy's students reside in the City it competes for students mostly with all public schools within the City. There are five public schools and three charter schools within approximately 5 miles of the Academy's new location in Redford Township, Michigan with similar grade offerings as the Academy, which the Academy views as competing with it with respect to enrollment of students:

### **Public Schools:**

- Clara B. Ford School, with an enrollment of approximately 152 students in grades 5 through 12;
- Cody High School, with an enrollment of approximately 1,969 students in grades 9 through 12;
- Crestwood High School, with an enrollment of approximately 1,075 students in grades 9 through 12;
- Garden City High School, with an enrollment of approximately 1,478 students in grades 9 through 12;
- Lee M. Thurston High School, with an enrollment of approximately 1,082 students in grades 9 through 12;

### **Charter Schools:**

- Detroit Community High School, with an enrollment of approximately 330 students in grades 9 through 12;
- Michigan Health Academy, with an enrollment of approximately 97 students in grades 9 through 12; and
- Star International Academy, with an enrollment of approximately 864 students in grades 1 through 12.

Due to a legislative "cap" on the number of charter schools that can be authorized by state universities in the City of Detroit, there is limited charter school competition expected in the near future. Universities have been the most active authorizers. However state universities have in the past offered charters to new applicants from charters that have been relinquished either voluntarily or involuntarily by existing charter schools, and hence there be no assurance that such a charter would not be granted in the future to a public school academy that may compete with the Academy.

Regarding community college authorizers, in the past 3 years, Bay Mills Community College ("BMCC") has been the most active authorizer in the State. BMCC may authorize charter schools anywhere throughout the State of Michigan except within the boundaries of the DPS.

Other community colleges and intermediate and local public school districts may also authorize charter schools within their district boundaries. To date, 219 charter schools have been authorized in Michigan, by various authorizers.

## **ACADEMIC PERFORMANCE**

### **Adequate Yearly Progress ("AYP")**

Not all of the Academy's schools met AYP status for the 2004-2005 academic year. The composite letter grade given by the State of Michigan was a C at the Middle School level and D at the high school level. No composite letter grade was given for the elementary school. The tables below detail the individual scores that gave the Academy the composite grades. The Composite grade is the overall grade for the school, arrived at by combining student achievement, indicators of school performance and AYP status. When data is available, it combines results over 2 or 3 years. A score and grade is assigned for each content area that is part of the Report Card. The score is calculated on a common school grading scale with 90-100



as an A. The score is based on achievement status, with the score averaged with the adjusted change score to yield the score and grade for the subject area.

The Academy undertook a review of its school improvement process to make revisions as required by No Child Left Behind legislation.

#### **School Report Card – Elementary**

The State of Michigan did not issue a report card on the elementary school program due to grade configuration changes prior to the 2004-05 school year. The Academy expects to receive an elementary school report card in the current school year.

#### **School Report Card – Middle School**

This report card provides an assessment of several measures of the Academy's middle school performance.

Student Achievement	Change				
	Status 2004-2005	Actual 2004-2005	Adjusted 2004-2005	Score 2004-2005	Grade 2004-2005
		-	-		
English Language Arts	66	-	-	66	D
Mathematics	71.8	-	-	71.8	C
Science	63.4	-	-	63.4	D
Social Studies	62.2	-	-	62.2	D
Achievement Subtotal	65.9	-	-	65.9	D
Indicators of School Performance				93	A
Preliminary Grade				75	C
AYP Status (Adequate Yearly Progress)			Met AYP		
Composite Grade			C		

### School Report Card – High School

This report card provides an assessment of several measures of the Academy's high school performance.

Student Achievement	Change			Score 2004-2005	Grade 2004-2005
	Status 2004-2005	Actual 2004-2005	Adjusted 2004-2005		
English Language Arts	50	-	-	50	F
Mathematics	50	50	-	50	F
Science	50	50	-	50	F
Social Studies	50	-	-	50	F
Achievement Subtotal	50	-	-	50	F
Indicators of School Performance				91	A
Preliminary Grade				64	D
AYP Status (Adequate Yearly Progress)			Did Not Make AYP		
Composite Grade			D-Alert		

#### **Scantron Performance Series Standardized Test**

The Academy utilizes the Scantron Performance Series Standardized Test (“Performance Series”), a normed achievement test, to measure the academic performance of their students. The Performance Series is a Standards-based Adaptive Measurement (“SAM”) that utilizes an innovative computer-adaptive, internet based model to target the instructional level of each student by altering question difficulty based on previous answers. Once the test is completed, the results are immediately available, providing an accurate evaluation of the student’s abilities.

The key benefits of the Performance Series are as follows:

- SAM adapts to the student’s instructional level, alleviating continued rounds of questions that are too easy or too difficult. SAM accurately places each student at his/her appropriate instructional level (grades 2-12).
- SAM is research-based, ensuring the reliability and validity of the test to accurately place each student.
- SAM reports are immediately available online after a student takes the test, since the test is Internet based. Levels of reports range from individual student’s performance through district-wide results, with demographic and group filtering.
- SAM tracks students using a consistent scale as they move from one school to the next, and measures academic gains over one year or across multiple years. In additions, groups can be established (i.e. Title I, After School, etc.) to place students and track academic gains over time.

The following table reports the Academy's most recent Performance Series results broken down by grade and subject:

**TABLE 5: ACADEMY'S MOST RECENT HIGH SCHOOL PERFORMANCE SERIES**

<b>Math – Fall 2005 Testing</b>		<b>Reading – Fall 2005 Testing</b>	
Grade	National Percentile Ranking	Grade	National Percentile Ranking
9	15	9	34
10	19	10	38
11	28	11	48
12	30	12	61

Source: Scantron via website at **www.scantron.com** and the Academy.

Students attending the Academy high school program are non-traditional in that most are considered to be “at risk” students and therefore have generally been unsuccessful in other educational contexts prior to their enrollment at the Academy. As the Academy's students enter 9th grade and matriculate in both math and reading, their national percentile rank increases substantially.

#### **Michigan Educational Assessment Program – Student Assessment Data**

The Michigan Educational Assessment Program (MEAP) measures student performances against state standards in reading, writing mathematics, science and social studies. During the 2004-05 school year, the Academy's fourth, fifth, seventh and eighth graders took the MEAP in January and February 2005. The Academy's high school students were tested in October, 2005.

<b><u>Subject</u></b>	<b><u>Grade</u></b>	<b><u>Percent Exceeded Standards</u></b>	<b><u>Percent Met Standards</u></b>	<b><u>Percent at Basic Level</u></b>	<b><u>Percent at Apprentice Level</u></b>
<b>Reading</b>	<b>4</b>	1.0	46.0	30.0	27.0
<b>Writing</b>	<b>4</b>	00.0	20.0	49.0	31.0
<b>ELA</b>	<b>4</b>	00.0	23.0	57.0	20.0
<b>Math</b>	<b>4</b>	1.0	17.0	55.0	27.0
<b>Science</b>	<b>5</b>	00.0	25.0	69.0	6.0
<b>Social Studies</b>	<b>5</b>	00.0	1.0	6.0	93.0
<b>Writing</b>	<b>7</b>	00.0	30.0	59.0	11.0
<b>Reading</b>	<b>7</b>	6.0	47.0	19.0	29.0
<b>ELA</b>	<b>7</b>	3.0	33.0	43.0	20.0
<b>Science</b>	<b>8</b>	00.0	32.0	46.0	22.0
<b>Social Studies</b>	<b>8</b>	00.0	10.0	28.0	62.0
<b>Math</b>	<b>8</b>	8.0	28.0	18.0	46.0
<b>ELA</b>	<b>11</b>	00.0	15.0	60.0	25.0
<b>Math</b>	<b>11</b>	00.0	10.0	6.0	83.0
<b>Science</b>	<b>11</b>	00.0	15.0	21.0	65.0
<b>Social Studies</b>	<b>11</b>	00.0	13.0	15.0	73.0
<b>ELA</b>	<b>12</b>	00.0	20.0	50.0	30.0
<b>Math</b>	<b>12</b>	00.0	17.0	23.0	59.0
<b>Science</b>	<b>12</b>	00.0	20.0	10.0	70.0
<b>Social Studies</b>	<b>12</b>	00.0	7.0	19.0	73.0

## **Other Measurements of Student Achievement**

### **Terra Nova Test Results**

The Terra Nova Survey Plus, Form A, published by CTB/McGraw-Hill, is given to Academy first grade students. This is a test designed to estimate a student's achievement level relative to grade-level peers across the country. The same score in both fall and spring indicates expected academic growth. A higher score in the spring reflects more than expected achievement while a lower score in the spring indicates less than expected gain.

The Academy conducted Terra Nova assessments for the first time in the spring of 2005. The data from this test will be used to establish a baseline for the measurement of improved student performance in ensuing years.

### **STATE AID PAYMENTS**

The Academy's principal source of revenue is a per-pupil base foundation allowance received from the State pursuant to the State School Aid Act of 1979 M.C.L. Section 388.1601 et. seq. Payments are sent directly to CMU, which forwards the payments to the Academy, minus a 3% authorizer fee. As part of the transaction involving the issuance of the Bonds, and pursuant to the State Aid Agreement, the Academy has directed that ninety-seven percent (97%) of the State School Aid funds to be received by the Academy in each fiscal year from the State of Michigan be paid directly to the Trustee; provided, however, that not more than 20% of the State School Aid funds to be received by the Academy for such fiscal year may be used to make payments on the Bonds and any additional bonds issued under the Indenture.

The following table shows the per-pupil base foundation allowance that public school academies received for the 2000-01 through 2004-2005 school years. It also shows the maximum foundation allowance that the Michigan Legislature allowed public school academies for those years (the table does not show the amount of the payments the Academy actually received during those years). The Academy received the maximum foundation allowance in each of the years presented in the table below, and also received additional amounts based upon the at-risk student population of the Academy within a given school year. See "RISK FACTORS" in forepart of this Official Statement for additional information, including appropriation, reduction and termination of State School Aid funds.

**TABLE 6: PER PUPIL BASIC FOUNDATION ALLOWANCE**

<b>Fiscal Year</b>	<b>Basic Foundation Allowance Per Pupil</b>	<b>Public School Academy Maximum Foundation Allowance Per Pupil</b>
2000-01	\$6,000	\$6,500
2001-02	\$6,300	\$6,800
2002-03	\$6,700	\$6,923*
2003-04	\$6,700	\$7,000*
2004-05	\$6,700	\$7,000
2005-06**	\$6,700	\$7,175

Source: The Academy, from information published in the Michigan School Aid Act and published by the Michigan House and Senate Fiscal Agencies.

\*The maximum foundation allowance per pupil amount reflects the effect of the application of the proration provisions of the School Aid Act. See "RISK FACTORS – Delay in, Reduction, or Termination of State School Aid," in forepart of this Official Statement.

\*\* Estimated.

### **OTHER BORROWING**

The Academy issued a state aid anticipation note pursuant to Section 1225 of the Revised School Code to provide for operating costs for the 2005-06 school year (the "Note"). The outstanding principal balance of the Note as of December 31, 2005 is \$3,505,455, maturing August 31, 2006. The monthly payment is \$459,543.17. The Note is a full faith and credit obligation of the Academy payable from State School Aid. The Academy has the right to borrow and pledge State School Aid for operating purposes in the future.

The Academy also has the following capital leases outstanding:

<u>Purpose</u>	<u>Monthly Payment</u>	<u>Lease Maturity</u>
Furniture, Fixtures and Equipment*	\$ 806.68	07/01/08
Textbooks	\$ 8,905.74	07/01/08
Furniture, Fixtures and Equipment*	\$ 7,227.85	07/01/08
Furniture, Fixtures and Equipment*	\$ 3,226.72	07/01/08
Building Improvements	\$ 10,673.48	06/01/12

\*Leases will be refinanced with bond proceeds.

## FEDERAL/STATE FUNDING

Public school academy students are similar to public school students for the purpose of eligibility for federal entitlement programs. A public school academy may receive federal grant funds directly from the Michigan Department of Education by following the same procedures that local school districts are required to follow.

## BUDGET PROCESS AND INFORMATION

The Academy's Board of Directors is responsible for establishing, approving and amending an annual budget in accordance with the Uniform Budgeting and Accounting Act, M.C.L. 141.421, et. seq. The Board must submit to the CMU Charter Schools Office a copy of its annual budget for the upcoming fiscal year in accordance with the Master Calendar of Reporting Requirements adopted by the Charter School Office. The budget must detail budgeted expenditures at the object level as described in the Michigan Department of Education's Michigan School Accounting Manual. The Academy's Board of Directors is also responsible for approving all revisions and amendments to the annual budget.

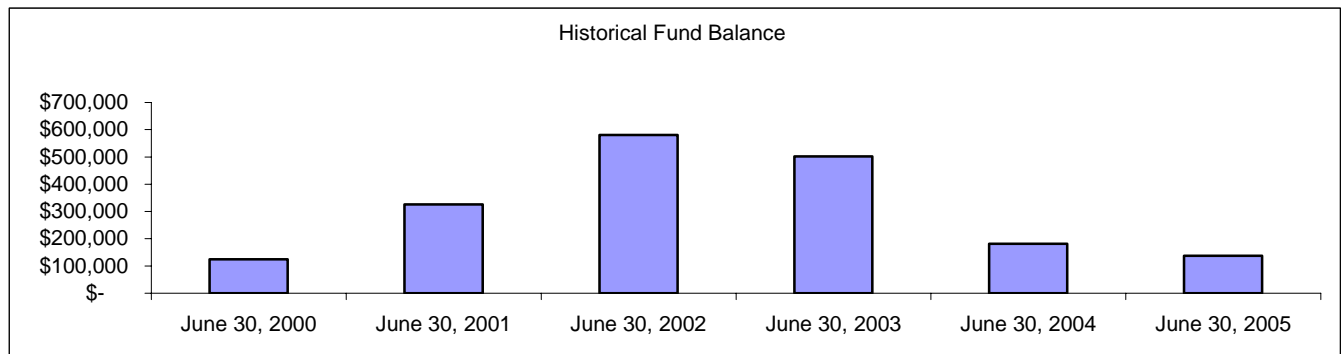
## HISTORICAL AND PROJECTED REVENUES AND EXPENSES

Set below is (1) a table of historical fund balances of the Academy and (2) the Academy's historical and projected revenues and expenses. The information presented for the School Years ended June 30, 2000 through 2005 is actual data presented by the Academy, and for the School Years ending June 30, 2006 through 2010 is projected information provided by the Academy, which is based upon certain assumptions made by the Academy. The projections are derived from the actual operation of the Academy and from the Academy's assumptions about student enrollment and expenses.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE ACADEMY.

### Historical Fund Balance

	June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005
Fund Balance	\$123,981	\$325,827	\$580,424	\$501,793	\$182,280	\$137,570



**MICHIGAN TECHNICAL ACADEMY**  
**HISTORICAL AND PROJECTED GENERAL FUND REVENUES, EXPENDITURES AND**  
**CHANGES IN GENERAL FUND BALANCE**  
**FISCAL YEARS ENDED JUNE 30**  
*- Preliminary d/o 1/30/2006 -*

Assumed Annual Foundation Increase\* 2.50%  
 \* Beyond 2006: Actual Increase for 2006 2.5%

	2001 Audited	2002 Audited	2003 Audited	2004 Audited	2005 Audited	2006 Budgeted	2007 Projected	2008 Projected	2009 Projected	2010 Projected
Enrollment K-12	359	467	727	780	1,028	1,167	1,265	1,325	1,375	1,425
Enrollment Share Time	0	0	0	91	176	191	200	200	200	200
Total Enrollment	359	467	727	871	1,204	1,358	1,465	1,525	1,575	1,625
Blended Count	299	445	675	842	1,116	1,306	1,438.25	1,510	1,562.5	1,612.5
Blended Count Foundation Allowance	\$6,500	\$6,997	\$6,998	\$6,999	\$7,000	\$7,175	\$7,354	\$7,538	\$7,726	\$7,919
(Actual for 2004-05)										
<b>REVENUE</b>										
Local Sources	\$ 16,788	\$ 13,101	\$ 33,757	\$ 17,351	\$ 75,801	\$ 62,000	\$ 62,000	\$ 62,000	\$ 62,000	\$ 62,000
State Grant-In-Aid	2,262,429	3,003,495	4,647,500	7,749,311	7,749,311	9,370,550	10,576,891	11,382,380	12,071,875	12,769,388
Other State Sources	140,421	238,766	226,757	361,429	278,795	305,125	305,125	305,125	305,125	305,125
Federal Sources	21,587	37,651	67,812	116,590	185,797	478,562	478,562	478,562	478,562	478,562
Other Sources (1)	352,442	8,228	988,000	0	625,000	-	-	-	-	-
Operating Transfers	0	0	0	0	0	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>\$ 2,793,667</b>	<b>\$ 3,301,241</b>	<b>\$ 5,963,826</b>	<b>\$ 6,240,481</b>	<b>\$ 8,914,704</b>	<b>\$ 10,216,237</b>	<b>\$ 11,422,578</b>	<b>\$ 12,228,067</b>	<b>\$ 12,917,562</b>	<b>\$ 13,615,075</b>

<b>EXPENDITURES</b>										
Instruction (2)	\$ 1,103,688	\$ 1,534,450	\$ 2,438,431	\$ 2,715,484	\$ 3,492,581	\$ 5,231,045	\$ 5,827,999	\$ 6,297,459	\$ 6,746,658	\$ 7,229,058
Supporting Services:	1,332,497	1,355,534	3,284,756							
Pupil Services				128,123	62,737	-	-	-	-	-
Instructional Support				54,951	66,166	-	-	-	-	-
General Administration				548,661	800,723	905,744	1,070,485	1,121,850	1,166,343	1,211,476
School Administration				611,064	883,134	877,720	911,970	949,157	989,658	989,658
Business Service				207,873	361,220	365,500	397,000	431,575	469,529	511,196
Operations and Maintenance (2)				1,460,767	1,938,351	1,842,500	1,941,900	2,060,202	2,134,626	2,216,072
Transportation				45,840	136,825	66,473	67,564	68,689	69,848	71,043
Central Services				126,154	159,280	-	-	-	-	-
Community Services:				381,326	791,130	-	-	-	-	-
Lease Payments: (3)	130,065	155,258	281,949	257,091	170,876	325,124	234,951	234,951	128,082	128,082
Bond Debt Service: (4)							445,943	557,650	556,950	555,950
Other Expenses:							181,790	202,867	202,867	226,958
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 2,591,821</b>	<b>\$ 3,046,644</b>	<b>\$ 6,042,457</b>	<b>\$ 6,559,994</b>	<b>\$ 8,959,414</b>	<b>\$ 9,729,640</b>	<b>\$ 11,026,899</b>	<b>\$ 11,866,136</b>	<b>\$ 12,424,060</b>	<b>\$ 13,139,493</b>
<b>NET INCOME</b>	<b>\$ 201,846</b>	<b>\$ 254,597</b>	<b>\$ (78,631)</b>	<b>\$ (319,513)</b>	<b>\$ (44,710)</b>	<b>\$ 486,597</b>	<b>\$ 395,679</b>	<b>\$ 361,931</b>	<b>\$ 493,502</b>	<b>\$ 475,582</b>
<b>PLUS DEBT SERVICE ON LEASES &amp; BONDS</b>	<b>\$ 130,065</b>	<b>\$ 155,258</b>	<b>\$ 281,949</b>	<b>\$ 257,091</b>	<b>\$ 170,876</b>	<b>\$ 325,124</b>	<b>\$ 680,894</b>	<b>\$ 792,601</b>	<b>\$ 685,032</b>	<b>\$ 684,032</b>
<b>NET REVENUES AVAILABLE FOR DEBT SERVICE ON BONDS</b>	<b>\$ 331,911</b>	<b>\$ 409,855</b>	<b>\$ 203,318</b>	<b>\$ (62,422)</b>	<b>\$ 126,166</b>	<b>\$ 811,721</b>	<b>\$ 1,076,573</b>	<b>\$ 1,154,532</b>	<b>\$ 1,178,534</b>	<b>\$ 1,159,614</b>

Bond Debt Service (Less capitalized interest)										
<b>BOND DEBT SERVICE COVERAGE RATIO (5)</b>										
Lease Debt Service	\$ 130,065	\$ 155,258	\$ 281,949	\$ 257,091	\$ 170,876	\$ 325,124	\$ 234,951	\$ 234,951	\$ 128,082	\$ 128,082
Debt Service Coverage Ratio (6)	2.55	2.64	0.72	(0.24)	0.74	2.50	2.31	1.46	1.72	1.70
State Aid Limit For Debt Service (7)	\$ 452,486	\$ 600,699	\$ 929,500	\$ 1,149,022	\$ 1,549,862	\$ 1,874,110	\$ 2,115,378	\$ 2,276,476	\$ 2,414,375	\$ 2,553,878
Debt Service as % of State Aid Limit	28.7%	25.8%	30.3%	22.4%	11.0%	17.3%	10.9%	24.5%	23.1%	21.8%
Beginning Fund Balance	\$ 123,981	\$ 325,827	\$ 580,424	\$ 501,793	\$ 182,280	\$ 137,570	\$ 624,167	\$ 1,019,846	\$ 1,381,777	\$ 1,875,279
Ending Fund Balance	\$ 325,827	\$ 580,424	\$ 501,793	\$ 182,280	\$ 137,570	\$ 624,167	\$ 1,019,846	\$ 1,381,777	\$ 1,875,279	\$ 2,350,860

- (1) Other Sources of Revenue: \$72,500 equip. lease proceeds & \$279,942 insurance proceeds (2001); \$8,228 insurance proceeds (2002); \$988,000 bldg improvement lease proceeds (2003); \$625,000 equip/textbook lease proceeds (2005).
- (2) For Fiscal Years 2006 - 2010 Instruction Expense and Operating & Maintenance Expense have been increased to include projected capital outlays for equipment, furniture, & building improvements.
- (3) Lease payments include equipment, textbook, and building improvement leases. Three of the Five outstanding leases will be paid off with bond proceeds. Outstanding Text book lease will expire 6/1/08, Bldg Improvement Lease expires 2012.
- (4) The First Interest Payment on the new bonds is due 8/1/2006 has been capitalized (\$214,618.79). MTA will pay 2/1/2007 interest payment. Bond Debt Service will have priority lien on Revenues.
- (5) Bond Debt Service Coverage Ratios are calculated based upon the bond debt service only (does not include leases) because Bond Debt Service has a priority lien on Revenues over lease debt service.
- (6) Debt Service Coverage Ratio includes debt service on leases and bonds. For Debt Service Coverage Ratios in Fiscal Years 2001-2006 there is no bond debt service, only lease debt service.
- (7) Current Charter School Legislation limits amount for debt service at 20% of State Grant-In-Aid.

## **Exhibit B**

**AUDITED FINANCIAL STATEMENTS FOR THE ACADEMY FOR THE YEAR  
ENDING JUNE 30 2005**

**MICHIGAN TECHNICAL ACADEMY**  
**(f/k/a Michigan Automotive Academy)**

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This section of Michigan Technical Academy's (Academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. In the future, comparative analysis will be provided when prior year information becomes available.

**Financial Highlights**

- Revenues increased by 33 percent while expenses increased by 37 percent. Blended enrollment used for state aid purposes was 1,116.12 in June 2005 compared to 833.64 in June 2004.
- The Academy maintained its outstanding liabilities.

**Overview of the Financial Statements**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include two kinds of statements that present different views of the Academy.

The first two statements are Academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.

The governmental fund statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the Academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.



Figure A-1 Organization of Michigan Technical Academy Annual Financial Report

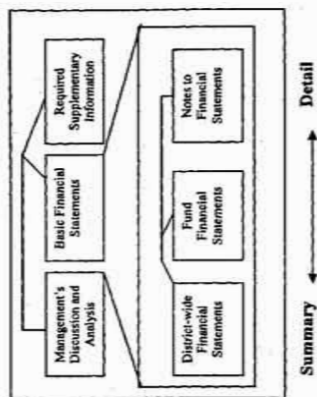


Figure A-2 summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
	Governmental funds	Fiduciary funds
Scope	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>Statement of net assets</li> <li>Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>Balance sheet</li> <li>Statement of revenue, expenditures and changes in fund balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable
		<ul style="list-style-type: none"> <li>All additions and deductions during the year, regardless of when cash is received or paid</li> </ul>

**Academy-wide statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, the reader should consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

**Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has two kinds of funds:

**Governmental funds** – Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

**Fiduciary funds** – The Academy is the fiduciary for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the Academy cannot use these assets to finance its operations.

**Financial analysis of the Academy as a whole**

Net assets – the Academy's combined net assets were \$1,189,000 on June 30, 2005. See Figure A-3.

The total revenues increased by 33 percent to \$8,435,056. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's revenue (92 percent).

The Academy's stable financial position is the product of many factors. The primary reasons are an increase in students enrolled and the management of expenses to bring them into line with the Academy's revenue.

**Academy governmental activities**

The stable health of the Academy's finances results from a balance between a weaker economy resulting in less state and other revenue offset by the management of expenses. The school board oversees the Academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

**Figure A-3**  
**Michigan Technical Academy**

	2005
Current assets	\$3,764,637
Capital assets	2,419,189
Total assets	6,183,826
Current liabilities	3,904,494
Noncurrent liabilities	1,090,332
Total liabilities	4,994,826
Net assets	
Invested in capital assets, net of related debt	1,051,430
Unrestricted	137,570
Total net assets	\$1,189,000

**Figure A-4**  
**Changes in Michigan Technical Academy's Net Assets**

	2005
<b>Revenues:</b>	
Program revenues:	
Federal and state categorical grants	\$ 609,944
General revenues:	
State aid - unrestricted	7,749,311
Other	75,801
<b>Total revenues</b>	<b>8,435,056</b>
<b>Expenses:</b>	
Instruction	3,492,581
Support services	4,993,046
Unallocated depreciation	155,569
<b>Total expenses</b>	<b>8,641,196</b>
<b>Changes in net assets</b>	<b>\$ (206,140)</b>

#### Financial analysis of the Academy's funds

The stable financial performance of the Academy as a whole is reflected in its governmental fund as well. As the Academy completed the year, its governmental fund (general) reported a fund balance of \$137,570, a decrease of \$44,710 over last year's ending fund balance of \$182,280.

#### General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts and changes in assumptions (e.g. instructional costs, building rents, capital outlay) since the original budget was adopted.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues by (\$135,256), the actual results for the year showed expenditures over revenues of (\$44,710).

#### Capital asset and debt administration

##### Capital assets

By the end of the year ended June 30, 2005, the Academy had invested \$2,419,189 in capital assets consisting primarily of computers, software, furniture and fixtures, net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$155,569.

The Academy's capital assets are as follows:

**Figure A-5**  
**Michigan Technical Academy's Capital Assets**

	Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$ 2,107,657	\$ 150,565	\$ 1,957,092
Furniture and equipment	721,500	344,001	377,499
Transportation Vehicle	88,030	6,288	81,742
Instructional vehicles	40,000	37,144	2,856
<b>Total</b>	<b>\$ 2,957,187</b>	<b>\$ 537,998</b>	<b>\$ 2,419,189</b>

#### Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the academy was aware of existing circumstances that could significantly affect its financial health in the future. The 2005-2006 foundation allowance (state aid funding) from the State of Michigan has increased to \$7,175 per student. The foundation allowance represents 86 percent of the total Academy revenue.

#### Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 2525 West Jefferson, Trenton, MI 48183.

To the Board of Directors  
Michigan Technical Academy  
(f/k/a Michigan Automotive Academy)  
Detroit, Michigan

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2005 on our consideration of Michigan Technical Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

GRANT, MILLMAN & JOHNSON, P.C.

*Grant, Millman & Johnson, P.C.*

September 15, 2005

GRANT, MILLMAN & JOHNSON, P.C.

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MEMBERS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors  
Michigan Technical Academy  
(f/k/a Michigan Automotive Academy)  
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Michigan Technical Academy (f/k/a Michigan Automotive Academy) as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of Michigan Technical Academy as of June 30, 2005 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

**STATEMENT OF NET ASSETS**  
June 30, 2005

	Governmental Activities
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 2,119,397
Due from Other Governmental Units	1,600,897
Deposits	44,343
Capital Assets - Net	2,419,189
<b>TOTAL ASSETS</b>	<b>\$ 6,183,826</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities:</b>	
Accounts Payable	\$ 87,653
Notes Payable	3,539,414
Current Portion of Long-Term Liabilities	277,427
Non-Current Portion of Long-Term Liabilities	1,090,332
Total Liabilities	4,994,826
<b>Net Assets:</b>	
Invested in Capital Assets - Net of Related Debt	1,051,430
Unrestricted	137,570
Total Net Assets	1,189,000
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,183,826</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2005

	Program Revenues	Governmental Activities
<b>Functionals/Programs</b>		
Primary Government - Governmental Activities:		
Instruction	\$ 3,492,581	\$ (3,027,989)
Support Services	3,917,162	(3,917,162)
Food Service	241,743	(96,391)
Community Services	791,130	(791,130)
Interest	43,011	(43,011)
Depreciation (Unallocated)	155,569	(155,569)
<b>Total Governmental Activities</b>	<b>\$ 8,641,196</b>	<b>\$ (8,031,252)</b>
General revenues:		
State aid not restricted to specific purposes		7,749,311
Other		75,801
<b>Total General Revenues and Special Items</b>	<b>\$ 609,944</b>	<b>7,825,112</b>
<b>Change in Net Assets</b>		<b>(206,140)</b>
<b>Net Assets - Beginning of Year</b>		<b>1,395,140</b>
<b>Net Assets - End of Year</b>		<b>\$ 1,189,000</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**MICHIGAN TECHNICAL ACADEMY**  
**(f/k/a Michigan Automotive Academy)**

**GOVERNMENTAL FUNDS - BALANCE SHEET**  
**June 30, 2005**

	General	Other Nonmajor Governmental Fund - Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,119,397	\$ -	\$ 2,119,397
Due from Other Governmental Units	1,600,897	-	1,600,897
Deposits	44,343	-	44,343
<b>TOTAL ASSETS</b>	<b>\$ 3,764,637</b>	<b>\$ -</b>	<b>\$ 3,764,637</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 87,653	\$ -	\$ 87,653
Notes Payable	3,539,414	-	3,539,414
<b>Total Liabilities</b>	<b>3,627,067</b>	<b>-</b>	<b>3,627,067</b>
<b>Fund Balances:</b>			
Reserved:			
Deposits	44,343	-	44,343
Unreserved - Undesignated - Reported in General Fund	93,227	-	93,227
<b>Total Fund Balances</b>	<b>137,570</b>	<b>-</b>	<b>137,570</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,764,637</b>	<b>\$ -</b>	<b>\$ 3,764,637</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**MICHIGAN TECHNICAL ACADEMY**  
**(f/k/a Michigan Automotive Academy)**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS**  
**For the Year Ended June 30, 2005**

<b>Fund Balances - Governmental Funds</b>	<b>\$ 137,570</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund: The cost of the capital assets is	\$ 2,957,187
Accumulated depreciation is	(537,998)
	<u>2,419,189</u>
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year end consisted of:	
Notes Payable	<u>(1,367,759)</u>
<b>Net Assets - Governmental Activities</b>	<b>\$ 1,189,000</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**  
For the Year Ended June 30, 2005

	General	Other Nonmajor Governmental Fund - Special Revenue	Total Governmental Funds
<b>REVENUE</b>			
Local Sources	\$ 75,801	\$ 18,602	\$ 94,403
State Sources	8,028,106	3,385	8,031,491
Federal Sources	185,787	123,365	309,152
Other Financing Sources:			
Other Sources	625,000	-	625,000
Operating Transfers	-	96,391	96,391
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>8,814,704</b>	<b>241,743</b>	<b>9,156,447</b>
<b>EXPENDITURES</b>			
Instruction	3,482,581	-	3,482,581
Supporting Services:			
Pupil Services	62,737	-	62,737
Instructional Support	66,166	-	66,166
General Administration	800,723	-	800,723
School Administration	883,134	-	883,134
Business Service	361,220	-	361,220
Operations and Maintenance	1,938,351	-	1,938,351
Transportation	136,825	-	136,825
Central Services	159,280	-	159,280
Other Support Services	241,743	-	241,743
Community Services:			
Custody and Care of Children	158,607	-	158,607
Non-Public School Pupils	632,523	-	632,523
Debt Service:			
Principal	127,865	-	127,865
Interest	43,011	-	43,011
Other Uses:			
Operating Transfers	96,391	-	96,391
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b>8,959,414</b>	<b>241,743</b>	<b>9,201,157</b>
<b>EXCESS OF EXPENDITURES OVER REVENUE</b>	<b>(44,710)</b>	<b>-</b>	<b>(44,710)</b>
<b>FUND BALANCES - Beginning of Year</b>	<b>182,280</b>	<b>-</b>	<b>182,280</b>
<b>FUND BALANCES - End of Year</b>	<b>\$ 137,570</b>	<b>\$ -</b>	<b>\$ 137,570</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2005

<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (44,710)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation Expense	\$ (155,569)
Capitalized capital outlay	491,274
	<u>335,705</u>
Governmental funds report proceeds from financing as revenue; in the statement of activities, these obligations are recorded as liabilities:	
Capital lease proceeds	(625,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	<u>127,865</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (206,140)</b>

The Accompanying Notes are an Integral Part of These Financial Statements



**MICHIGAN TECHNICAL ACADEMY**  
**(f/k/a Michigan Automotive Academy)**

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Michigan Technical Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

**REPORTING ENTITY**

Michigan Technical Academy was established on August 22, 1995 as a public school academy pursuant to the Michigan School Code of 1976, as amended and administered by Central Michigan University. The Academy operates four locations in the cities of Romulus and Detroit providing education for students in grades kindergarten through twelve.

Michigan Technical Academy was organized on a non-stock, directorship basis, as a Michigan nonprofit corporation under code section 501(c)(3) of the Internal Revenue Code.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

**ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS**

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfund activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MICHIGAN TECHNICAL ACADEMY**  
**(f/k/a Michigan Automotive Academy)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

**Academy-wide Financial Statements** - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

**FUND ACCOUNTING**

The Academy uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Academy functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Academy reports the following major governmental funds:

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.



**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2005

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the Academy reports the following fund types:

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund is the Food Service Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Receivables and Payables** - Trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

**Capital Assets** - Capital assets, which include leasehold improvements, furniture and equipment, and instructional vehicles, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Leasehold improvements, furniture and equipment, and instructional vehicles are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	39.5 years
Furniture and equipment	7 years
Instructional vehicles	7 years
Transportation vehicle	7 years

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2005

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Interfund Activity** - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Comparative Data/Reclassifications** - Comparative data is not included in the Academy's financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2 - Stewardship, Compliance and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2005

**Note 2 - Stewardship, Compliance and Accountability (Continued)**

**Excess of Expenditures Over Appropriations in Budgeted Funds -** During the year, the Academy incurred expenditures in the General Fund which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Instructional support	\$ 65,592	\$ 66,166

**Note 3 - Deposits and Investments**

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated one bank for the deposit of its funds.

The Academy's cash and investments are subject to custodial credit risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits -** Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy deposit balance of \$2,132,105 had \$2,032,105 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental</u>
	<u>Activities</u>
Cash and cash equivalents	\$ 2,119,397

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2005

**Note 4 - Due from Other Governmental Units**

Due from other governmental units as of June 30, 2005 for the Academy's general fund is as follows:

State of Michigan	\$1,484,161
Federal Government	109,083
Wayne RESA	7,673
Total	<u>\$1,600,897</u>

**Note 5 - Capital Assets**

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets being depreciated:				
Leasehold improvements	\$ 1,836,433	\$ 271,224	\$ -	\$ 2,107,657
Furniture and equipment	589,480	132,020	-	721,500
Transportation Vehicle	-	88,030	-	88,030
Instructional vehicles	40,000	-	-	40,000
Subtotal	<u>2,465,913</u>	<u>491,274</u>	<u>-</u>	<u>2,957,187</u>
Accumulated depreciation:				
Leasehold improvements	100,640	49,925	-	150,565
Furniture and equipment	250,360	93,641	-	344,001
Transportation Vehicle	-	6,288	-	6,288
Instructional vehicles	31,429	5,715	-	37,144
Subtotal	<u>382,429</u>	<u>155,569</u>	<u>-</u>	<u>537,998</u>
Net capital assets being depreciated	<u>2,083,484</u>	<u>335,705</u>	<u>-</u>	<u>2,419,189</u>
Net governmental capital assets	<u>\$ 2,083,484</u>	<u>\$ 335,705</u>	<u>\$ -</u>	<u>\$ 2,419,189</u>

Included in the capital assets above are items totaling \$272,500 leased under capital leases. Accumulated amortization for these assets totals \$37,899 at June 30, 2005 and is included in the accumulated depreciation balance above. Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

**Note 6 - Short-Term Debt**

Notes payable at June 30, 2005 are state aid participation notes as follows:

Payable to a bank, due September 30, 2005 with interest at 1/4% below the prevailing prime rate. The note is secured by the Academy's state school aid funds.	\$2,685,690
Payable to a bank, due August 24, 2005 with interest at 4.45%. The note is secured by assets of the Academy.	<u>853,724</u>
	<b>\$3,539,414</b>

During the fiscal year ended June 30, 2005, the following changes occurred in short-term debt:

	Beginning Balance	Additions	Deletions	Ending Balance
Note Payable	\$ 750,000	\$2,685,690	\$ 750,000	\$2,685,690
Note Payable	3,321,300	1,334,500	3,802,076	853,724
Total Short-Term Debt	<u>\$4,071,300</u>	<u>\$4,020,190</u>	<u>\$4,552,076</u>	<u>\$3,539,414</u>

**Note 7 - Long-Term Debt**

Long-term debt at June 30, 2005 consisted of the following:

Capital lease payable in monthly installments of \$7,228 through June 2008.	\$ 224,000
Capital lease payable in monthly installments of \$8,906 through June 2008.	276,000
Capital lease payable in monthly installments of \$3,227 through June 2008.	100,000
Capital lease payable in monthly installments of \$807 through June 2008.	25,000
Capital lease payable to the Archdiocese of Detroit, payable in monthly installments of \$10,673 with interest at 5.5%, maturing in June 2012.	<u>742,759</u>
Total Long-Term Debt	<b>\$1,367,759</b>

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

**Note 7 - Long-Term Debt (Continued)**

The annual requirements to pay principal and interest on long-term debt outstanding at June 30, 2005 are as follows:

	Principal	Interest	Total
2006	\$ 277,427	\$ 92,658	\$ 370,085
2007	302,155	67,930	370,085
2008	329,230	41,155	370,385
2009	105,472	22,609	128,081
2010	111,421	16,660	128,081
Thereafter	<u>242,054</u>	<u>14,108</u>	<u>256,162</u>
Total	<b>\$1,367,759</b>	<b>\$ 255,120</b>	<b>\$1,622,879</b>

**Note 8 - Commitments**

Michigan Technical Academy has entered into leases for its facilities. The Romulus location lease is for a term of five years commencing January 2000, requiring annual rent of \$83,492. This lease expired in December 2004 and currently Michigan Technical Academy is leasing the property on a month to month basis. Portable classrooms are also leased for the Romulus location for a term of two years commencing October 2003, requiring annual lease payments of \$43,980 for the first year and \$56,580 for the second year. The Detroit Meyers location lease is for a term of five years commencing July 2000, requiring annual lease payments of ten percent of the per pupil enrollment grant received from the State of Michigan with minimum annual rents of \$95,490. The Detroit Mansfield location lease is for a term of ten years commencing July 2002, requiring minimum annual rents of \$100,000. In addition, the Academy has operating leases for office equipment expiring through October 2008, with monthly rents of \$2,042. The Redford location lease is for a term of five years commencing July 2004, with an initial annual rate of \$121,325, escalating fifty cents per square foot per year. The lease includes an option to purchase the property. The management is in the process to buy the building. The Evergreen location lease is for a term of ten years commencing July 2004, requiring annual minimum lease payments in the initial year of \$125,000, escalating to \$162,000 in the final year. The total rental expense for the year ended June 30, 2005 was \$832,026.

Future minimum lease commitments as of June 30, 2005 are as follows:

Year Ended June 30,	
2006	\$ 268,631
2007	240,874
2008	240,000
2009	245,000
2010	250,000
Thereafter	<u>830,000</u>
Total	<b>\$2,074,305</b>

**MICHIGAN TECHNICAL ACADEMY**  
(f/k/a Michigan Automotive Academy)

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

**Note 9 - Contingencies**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

**Note 10 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

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**Independent Auditors' Report on Supplemental Information**

To the Board of Directors  
Michigan Technical Academy  
(f/k/a Michigan Automotive Academy)  
Detroit, Michigan

We have audited the financial statements of Michigan Technical Academy (f/k/a Michigan Automotive Academy) as of and for the year ended June 30, 2005. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Michigan Technical Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GRANT, MILLMAN & JOHNSON, P.C.

*Grant, Millman & Johnson, P.C.*

September 15, 2005

**MICHIGAN TECHNICAL ACADEMY  
(f/k/a Michigan Automotive Academy)**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
For the Year Ended June 30, 2005**

	General Fund			Favorable (Unfavorable) Final Budget
	Original Budget	Final Budget	Actual	
<b>REVENUE</b>				
Local Sources	\$ 12,400	\$ 77,000	\$ 75,801	\$ (1,199)
State Sources	8,208,136	8,028,118	8,028,108	(10)
Federal Sources	138,208	184,193	185,787	1,604
Other Financing Sources:				
Other Sources	500,000	625,000	625,000	-
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>8,858,744</b>	<b>8,914,309</b>	<b>8,914,704</b>	<b>395</b>
<b>EXPENDITURES</b>				
Instruction	3,770,476	3,521,889	3,492,581	29,108
Supporting Services:				
Pupil Services	126,626	63,486	62,737	759
Instructional Support	155,789	65,592	66,186	(574)
General Administration	741,872	803,729	800,723	3,006
School Administration	846,748	898,877	883,134	15,943
Business Service	296,600	363,250	361,220	2,030
Operations and Maintenance	1,920,980	1,942,250	1,938,351	3,899
Transportation	75,000	138,619	136,825	1,794
Central Services	144,463	162,631	159,280	3,351
Other Support Services:				
Community Services:				
Custody and Care of Children	-	162,031	158,607	3,424
Non-Public School Pupils	361,902	639,465	632,523	6,942
Debt Service:				
Principal	282,275	127,938	127,865	71
Interest Expense	35,700	44,900	43,011	1,889
Other Uses:				
Operating Transfers	90,000	115,000	96,391	19,609
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b>8,848,411</b>	<b>9,049,565</b>	<b>8,959,414</b>	<b>90,151</b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>11,333</b>	<b>(135,256)</b>	<b>(44,710)</b>	<b>90,546</b>
<b>FUND BALANCES - Beginning of Year</b>	<b>92,930</b>	<b>182,280</b>	<b>182,280</b>	<b>-</b>
<b>FUND BALANCES - End of Year</b>	<b>\$ 104,263</b>	<b>\$ 47,024</b>	<b>\$ 137,570</b>	<b>\$ 90,546</b>

See Independent Auditors' Report on Supplemental Information

**SUPPLEMENTAL INFORMATION**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

For the Year Ended June 30, 2005

To the Board of Directors  
Michigan Technical Academy  
(f/k/a Michigan Automotive Academy)  
Detroit, Michigan

B-15

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Michigan Technical Academy (f/k/a Michigan Automotive Academy) as of and for the year ended June 30, 2005, which collectively comprise Michigan Technical Academy's basic financial statements and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Michigan Technical Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Michigan Technical Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

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Page Two

To the Board of Directors  
Michigan Technical Academy  
(f/k/a Michigan Automotive Academy)  
Detroit, Michigan

Internal Control Over Financial Reporting (Continued)

misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and Board of Directors. However, this report is a matter of public record and its distribution is not limited.

GRANT, MILLMAN & JOHNSON, P.C.  
*Grant, Millman & Johnson, P.C.*

September 15, 2005

# MICHIGAN AUTOMOTIVE ACADEMY

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This section of Michigan Automotive Academy's (Academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. In the future, comparative analysis will be provided when prior year information becomes available.

### Financial Highlights

- Revenues increased by 5 percent while expenses increased by 8 percent. Blended enrollment used for state aid purposes was 833.64 in June 2004 compared to 670.40 in June 2003.
- The Academy maintained its outstanding liabilities.

### Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the Academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.



Figure A-1 Organization of Michigan Automotive Academy Annual Financial Report

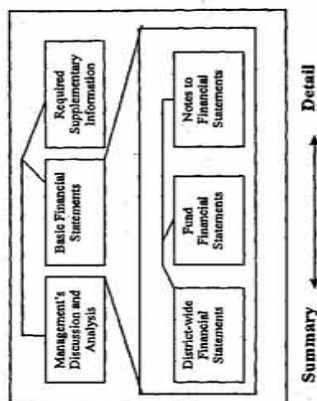


Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
Scope	Entire academy (except fiduciary funds)	Governmental funds All activities of the academy that are not fiduciary
Required financial statements	<ul style="list-style-type: none"> <li>Statement of net assets</li> <li>Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>Balance sheet</li> <li>Statement of revenues, expenditures and changes in fund balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable
		Accrual accounting and economic resources focus  All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can  All additions and deductions during the year, regardless of when cash is received or paid



**Academy-wide statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

**Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

**Governmental activities** – The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has two kinds of funds:

**Governmental fund** – Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

**Fiduciary funds** – The Academy is the fiduciary for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the Academy cannot use these assets to finance its operations.

**Financial analysis of the Academy as a whole**

Net assets – the Academy's combined net assets were \$1,395,140 on June 30, 2004. See Figure A-3.

The total revenues increased by 5 percent to \$6,325,408. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's revenue (91 percent).

The Academy's stable financial position is the product of many factors. The primary reasons are an increase in students enrolled, the management of expenses to bring them into line with the Academy's revenue, and a reduction in teacher salaries and retirement expenses.

**Academy governmental activities**

The stable health of the Academy's finances results from a balance between a weaker economy resulting in less state and other revenue and offset by the management of expenses. The state reduced the foundation allowance by \$74 per pupil. The school board oversaw the Academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

**Figure A-3  
Michigan Automotive Academy**

	2004
Current assets	\$4,336,930
Capital assets	2,083,484
Total assets	6,420,414
Current liabilities	4,282,515
Noncurrent liabilities	742,759
Total liabilities	5,025,274
Net assets	
Invested in capital assets, net of related debt	1,212,860
Unrestricted	182,280
Total net assets	\$1,395,140

**Figure A-4**  
**Changes in Michigan Automotive Academy's Net Assets**

	2004
<b>Revenues:</b>	
Program revenues:	
Federal and state categorical grants	\$ 562,946
General revenues:	
State aid - unrestricted	5,745,111
Other	17,351
<b>Total revenues</b>	<b>6,325,408</b>
<b>Expenses:</b>	
Instruction	2,673,991
Support services	3,514,976
Unallocated depreciation	133,284
<b>Total expenses</b>	<b>6,322,251</b>
<b>Change in net assets</b>	<b>\$ 3,157</b>

#### Financial analysis of the Academy's funds

The stable financial performance of the Academy as a whole is reflected in its governmental fund as well. As the Academy completed the year, its governmental funds (general) reported a fund balance of \$182,280, a decrease of \$319,513 over last year's ending fund balance of \$501,793.

#### General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget three times. These budget amendments fall into several categories:

Changes made in the second and third quarters to account for student enrollment counts, a prompted reduction in the state aid and changes in assumptions (e.g. resignation of a teacher and utility costs) since the original budget was adopted.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures by (\$408,863), the actual results for the year showed revenues over expenditures of (\$319,513).

#### Capital asset and debt administration

##### Capital assets

By the end of the year ended June 30, 2004, the Academy had invested \$2,083,484 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$133,284.

The Academy's capital assets are as follows:

**Figure A-5**  
**Michigan Automotive Academy's Capital Assets**

	Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$ 1,836,433	\$ 100,640	\$ 1,735,793
Furniture and equipment	589,480	250,360	339,120
Instructional vehicles	40,000	31,429	8,571
<b>Total</b>	<b>\$ 2,465,913</b>	<b>\$ 382,429</b>	<b>\$ 2,083,484</b>

The 2004-2005 foundation allowance (state aid funding) from the State of Michigan has stabilized to \$7,000 per student. The foundation allowance was reduced in 2002-2003 and 2003-2004. The foundation allowance represents 91 percent of the total Academy revenue. Due to the economic climate in the State of Michigan an increase in foundation allowance is not likely while a reduction in foundation allowance is possible.

#### Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 2525 West Jefferson, Trenton, MI 48183.

Page Two  
September 2, 2004  
Board of Directors  
Michigan Automotive Academy

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2004 on our consideration of Michigan Automotive Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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*Grant Millman Johnson, P.C.*

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September 2, 2004

Independent Auditors' Report

Board of Directors  
Michigan Automotive Academy

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Michigan Automotive Academy as of and for the year ended June 30, 2004, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of Michigan Automotive Academy as of June 30, 2004 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Academy has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

MICHIGAN AUTOMOTIVE ACADEMY

STATEMENT OF NET ASSETS  
June 30, 2004

ASSETS

	Governmental Activities
Cash and Cash Equivalents	\$ 3,155,460
Due from Other Governmental Units	1,139,983
Prepaid Expenses	41,487
Capital Assets - Net	<u>2,083,484</u>

TOTAL ASSETS

\$ 6,420,414

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 83,350
Notes Payable	4,071,300
Current Portion of Long-Term Liabilities	127,865
Non-Current Portion of Long-Term Liabilities	<u>742,759</u>

Total Liabilities

5,025,274

Net Assets

Invested in Capital Assets - Net of Related Debt	1,212,860
Unrestricted	182,280
Total Net Assets	<u>1,395,140</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 6,420,414

The Accompanying Notes are an Integral Part of These Financial Statements

MICHIGAN AUTOMOTIVE ACADEMY

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

	Program Revenues	Governmental Activities Net
	Operating Grants/ Contributions	(Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>	<b>Expenses</b>	<b>Contributions</b>
Primary Government - Governmental Activities:		
Instruction	\$ 2,673,991	\$ 478,019
Support Services	2,964,960	-
Food Service	108,307	84,927
Community Services	379,280	-
Interest	62,429	-
Depreciation (Unallocated)	133,284	-
Total Governmental Activities	<u>\$ 6,322,251</u>	<u>\$ 562,946</u>

General revenues:

State aid not restricted to specific purposes	5,745,111
Other	<u>17,351</u>

Total General Revenues and Special Items

5,762,462

Change in Net Assets

3,157

Net Assets - Beginning of Year

1,391,983

Net Assets - End of Year

\$ 1,395,140

The Accompanying Notes are an Integral Part of These Financial Statements

MICHIGAN AUTOMOTIVE ACADEMY

GOVERNMENTAL FUNDS - BALANCE SHEET  
June 30, 2004

	General	Other Nonmajor Governmental Fund - Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,155,480	\$ -	\$ 3,155,480
Due from Other Governmental Units	1,139,983	-	1,139,983
Prepaid Expenses	41,487	-	41,487
<b>TOTAL ASSETS</b>	<b>\$ 4,336,930</b>	<b>\$ -</b>	<b>\$ 4,336,930</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 83,350	\$ -	\$ 83,350
Notes Payable	4,071,300	-	4,071,300
<b>Total Liabilities</b>	<b>4,154,650</b>	<b>-</b>	<b>4,154,650</b>
Fund Balances:			
Reserved:			
Prepaids	41,487	-	41,487
Unreserved - Undesignated - Reported in General Fund	140,793	-	140,793
<b>Total Fund Balances</b>	<b>182,280</b>	<b>-</b>	<b>182,280</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,336,930</b>	<b>\$ -</b>	<b>\$ 4,336,930</b>

The Accompanying Notes are an Integral Part of These Financial Statements

MICHIGAN AUTOMOTIVE ACADEMY

RECONCILIATION OF THE BALANCE SHEET  
OF GOVERNMENTAL FUND TO  
THE STATEMENT OF NET ASSETS  
For the Year Ended June 30, 2004

<b>Fund Balances - Governmental Fund</b>	<b>\$ 182,280</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund: The cost of the capital assets is Accumulated depreciation is	\$ 2,465,913 (382,429)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of: Notes Payable Capital Leases Payable	(858,480) (12,144)
<b>Net Assets - Governmental Activities</b>	<b>\$ 1,395,140</b>

The Accompanying Notes are an Integral Part of These Financial Statements

MICHIGAN AUTOMOTIVE ACADEMY

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
For the Year Ended June 30, 2004

	General Fund	Other Nonmajor Governmental Fund - Special Revenue	Total Governmental Funds
<b>REVENUE</b>			
Local Sources	\$ 17,351	\$ 17,145	\$ 34,496
State Sources	6,106,540	1,832	6,108,372
Federal Sources	116,590	65,950	182,540
Other Financing Sources:			
Operating Transfers	-	22,660	22,660
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>6,240,481</b>	<b>107,587</b>	<b>6,348,068</b>
<b>EXPENDITURES</b>			
Instruction	2,715,484	-	2,715,484
Supporting Services:			
Pupil Services	128,123	-	128,123
Instructional Support	54,951	-	54,951
General Administration	548,661	-	548,661
School Administration	611,064	-	611,064
Business Service	207,873	-	207,873
Operations and Maintenance	1,460,767	-	1,460,767
Transportation	45,840	-	45,840
Central Services	126,154	-	126,154
Other Support Services	-	108,307	108,307
Community Services:			
Non-Public School Pupils	381,326	-	381,326
Debt Service:			
Principal	194,662	-	194,662
Interest	62,429	-	62,429
Other Uses:			
Operating Transfers	22,660	-	22,660
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b>6,559,994</b>	<b>108,307</b>	<b>6,668,301</b>
<b>EXCESS OF EXPENDITURES OVER REVENUE</b>	<b>(319,513)</b>	<b>(720)</b>	<b>(320,233)</b>
<b>FUND BALANCES - Beginning of Year</b>	<b>501,793</b>	<b>720</b>	<b>502,513</b>
<b>FUND BALANCES - End of Year</b>	<b>\$ 182,280</b>	<b>\$ -</b>	<b>\$ 182,280</b>

The Accompanying Notes are an Integral Part of These Financial Statements

MICHIGAN AUTOMOTIVE ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

<b>Net Change in Fund Balances - Governmental Fund</b>	<b>\$ (320,233)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation Expense	\$ (133,284)
Capitalized capital outlay	282,012
	<u>128,728</u>
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	<u>194,662</u>
<b>Change in Net Assets Of Governmental Activities</b>	<b>\$ 3,157</b>

The Accompanying Notes are an Integral Part of These Financial Statements

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Michigan Automotive Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

REPORTING ENTITY

Michigan Automotive Academy was established on August 22, 1995 as a public school academy pursuant to the Michigan School Code of 1976, as amended and administered by Central Michigan University. The Academy operates three locations in the cities of Romulus and Detroit providing education for students in grades kindergarten through twelve.

Michigan Automotive Academy was organized on a non-stock, directorship basis, as a Michigan nonprofit corporation under code section 501(c)(3) of the Internal Revenue Code.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

**Academy-wide Financial Statements** - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

FUND ACCOUNTING

The Academy uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Academy functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Academy reports the following major governmental funds:

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.



MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Academy reports the following fund types:

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund is the Food Service Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Receivables and Payables** - Trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

**Capital Assets** - Capital assets, which include leasehold improvements, furniture and equipment, and instructional vehicles, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Leasehold improvements, furniture and equipment, and instructional vehicles are depreciated using the straight-line method over the following useful lives:

Leasehold Improvements	39.5 years
Furniture and equipment	7 years
Instructional vehicles	7 years

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Interfund Activity** - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Comparative Data/Reclassifications** - Comparative data is not included in the Academy's financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Accounting Change** - Effective July 1, 2003, the Academy implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), along with all related statements and interpretations. Changes to the Academy's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Academy's overall financial position and results of operations has been included.
- Academy-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets include assets totaling \$2,203,900 previously reported in the General Fixed Assets Account Group.
- The governmental activities column includes other long-term obligations totaling \$1,085,285 previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.



MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004

Note 2 - Stewardship, Compliance and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Academy incurred expenditures in the General Fund which were in excess of the amounts budgeted, as follows:

	Budget	Actual
Operations and Maintenance	\$1,455,050	\$1,460,767
Central Services	116,639	126,154
Debt Service - Principal	112,500	194,662

Note 3 - Deposits and Investments

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

At year end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities
Cash and cash equivalents	\$ 3,155,460

The deposits of the Academy were reflected in the accounts of the financial institution at \$3,373,870 without recognition of checks written but not yet cleared or of deposits in transit. \$100,000 of the bank balance was covered by federal depository insurance and \$3,273,870 was uninsured and uncollateralized.

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004

Note 4 - Due from Other Governmental Units

Due from other governmental units as of June 30, 2004 for the Academy's general fund is as follows:

State of Michigan	\$1,100,417
Federal Government	39,566
Total	\$1,139,983

Note 5 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
Capital assets being depreciated:				
Leasehold improvements	\$ 1,628,890	\$ 207,543	\$ -	\$ 1,836,433
Furniture and equipment	535,010	54,470	-	589,480
Instructional vehicles	40,000	-	-	40,000
Subtotal	2,203,900	262,013	-	2,465,913
Accumulated depreciation:				
Leasehold improvements	55,234	45,406	-	100,640
Furniture and equipment	169,187	82,163	-	250,350
Instructional vehicles	25,714	5,716	-	31,429
Subtotal	249,145	133,284	-	382,429
Net capital assets being depreciated	1,954,755	128,729	-	2,083,484
Net governmental capital assets	\$1,954,755	\$ 128,729	\$ -	\$ 2,083,484

Included in the capital assets above are items totaling \$272,500 leased under capital leases. Accumulated amortization for these assets totals \$31,000 at June 30, 2004 and is included in the accumulated depreciation balance above. Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Note 6 - Short-Term Debt

Notes payable at June 30, 2004 are state aid anticipation notes as follows:

Payable to a bank, due September 30, 2004 with interest at 1/2% below the prevailing prime rate. The note is secured by the Academy's state school aid funds.	\$3,321,300
Payable to a bank, due October 24, 2004 with interest at 3.63%. The note is secured by assets of the academy.	750,000
	<u>\$4,071,300</u>

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

Note 6 - Short-Term Debt (Continued)

During the fiscal year ended June 30, 2004, the following changes occurred in short-term debt:

	Beginning Balance	Additions	Deletions	Ending Balance
Note Payable	\$ 254,049	\$ -	\$ 254,049	\$ -
Note Payable	1,570,583	679,417	1,500,000	750,000
Note Payable		3,321,300		3,321,300
Total	<u>\$1,824,632</u>	<u>\$4,000,717</u>	<u>\$1,754,049</u>	<u>\$4,071,300</u>

Note 7 - Long-Term Debt

Long-term debt at June 30, 2004 consists of the following:

Capital lease payable to a bank, payable in monthly installments of \$6,124 through August 2004, secured by equipment.	\$ 12,144
Note payable to G&L Associates, Inc., payable in monthly installments of \$4,364 with interest at 10%, maturing in January 2005.	31,035
Note payable to the Archdiocese of Detroit, payable in monthly installments of \$10,673 with interest at 5.5%, maturing in June 2012.	827,445
Total Long-term Debt	<u>\$ 870,624</u>

The annual requirements to pay principal and interest on long-term debt outstanding at June 30, 2004 are as follows:

	Principal	Interest	Total
2005	\$127,865	\$ 44,580	\$ 172,445
2006	89,463	38,818	128,081
2007	94,509	33,572	128,081
2008	99,841	28,240	128,081
2009	105,472	22,609	128,081
Thereafter	<u>353,474</u>	<u>30,771</u>	<u>384,245</u>
Total	<u>\$870,624</u>	<u>\$199,390</u>	<u>\$1,069,014</u>

Note 8 - Reserved Fund Balances

Fund balances, which are not available for appropriation or are not considered "expendable available financial resources," are reserved. Various expenses have been prepaid and therefore have been reserved. Such reserved fund balances at June 30, 2004 are as follows:

Reserved fund balances - general fund	\$ 41,487
Prepays	

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

Note 9 - Commitments

Michigan Automotive Academy has entered into leases for its facilities. The Romulus location lease is for a term of five years commencing January, 2000 requiring annual rent of \$93,492. Portable classrooms are also leased for the Romulus location for a term of two years commencing October, 2003 requiring annual lease payments of \$43,980 for the first year and \$56,580 for the second year. The Detroit Meyers location lease is for a term of five years commencing July, 2000 requiring annual lease payments of ten percent of the per pupil enrollment grant received from the State of Michigan with minimum annual rents of \$95,490. The Detroit Mansfield location lease is for a term of ten years commencing July, 2002 requiring minimum annual rents of \$100,000. In addition, the Academy has operating leases for office equipment expiring through October 2006 with monthly rents of \$2,042. The total rental expense for the year ended June 30, 2004 was \$522,088.

The Academy has also entered into leases for two new locations to be utilized in future years. The Redford location will replace the Romulus building. The lease commences July 2004 for a term of five years with an initial annual rate of \$121,325 escalating fifty cents per square foot per year. The lease includes an option to purchase the property that expires January 2005. It is management's intent to exercise this option. The second new location is in Detroit on Evergreen. This will be an additional facility for elementary students. The lease is for a term of ten years commencing July 2004 requiring annual minimum lease payments in the initial year of \$125,000 escalating to \$162,000 in the final year.

Future minimum lease commitments as of June 30, 2004 are as follows:

Year Ended June 30,	
2005	\$ 566,477
2006	\$ 394,449
2007	\$ 370,986
2008	\$ 374,805
2009	\$ 384,299
Thereafter	<u>\$1,080,000</u>
Total	<u>\$3,171,016</u>

Note 10 - Contingencies

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

Note 11 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

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September 2, 2004

Independent Auditors' Report on Supplemental Information

Board of Directors  
Michigan Automotive Academy

We have audited the financial statements of Michigan Automotive Academy as of and for the year ended June 30, 2004. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Michigan Automotive Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GRANT, MILLMAN & JOHNSON, P.C.  
*Grant, Millman & Johnson, P.C.*

MICHIGAN AUTOMOTIVE ACADEMY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
For the Year Ended June 30, 2004

	General Fund			Favorable (Unfavorable) Final Budget
REVENUE	Original Budget	Final Budget	Actual	
Local Sources	\$ 16,800	\$ 12,400	\$ 17,351	\$ 4,951
State Sources	7,076,800	6,108,550	6,108,540	(2,010)
Federal Sources	80,625	116,560	116,590	-
Other Financing Sources: Operating Transfers	-	-	-	-
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>7,174,025</b>	<b>6,237,510</b>	<b>6,240,481</b>	<b>2,941</b>
EXPENDITURES				
Instruction	2,804,903	2,767,949	2,715,484	52,465
Supporting Services:				
Pupil Services	214,879	130,629	125,123	2,506
Instructional Support	15,000	55,650	54,851	699
General Administration	862,052	552,179	546,661	3,518
School Administration	570,441	630,136	611,084	19,071
Business Service	172,000	276,450	207,873	70,577
Operations and Maintenance	1,282,500	1,455,050	1,460,787	(5,717)
Transportation	45,000	46,000	45,840	160
Central Services	-	116,839	126,154	(9,515)
Other Support Services	-	-	-	-
Community Services:				
Non-Public School Pupils	1,183,000	388,222	381,326	6,896
Debt Service:				
Principal	117,000	183,000	194,662	(1,662)
Interest Expense	-	-	62,429	(62,429)
Other Uses:				
Operating Transfers	40,000	32,500	22,660	9,840
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b>7,106,775</b>	<b>6,646,403</b>	<b>6,559,994</b>	<b>88,409</b>
EXCESS OF EXPENDITURES OVER REVENUE	67,250	(408,893)	(319,513)	88,350
FUND BALANCES - Beginning of Year	417,300	501,783	501,793	-
FUND BALANCES - End of Year	\$ 484,550	\$ 92,900	\$ 182,280	\$ 89,350

See Independent Auditors' Report on Supplemental Information

SUPPLEMENTAL INFORMATION

Page Two

September 2, 2004  
Board of Directors  
Michigan Automotive Academy

Internal Control Over Financial Reporting (Continued)

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and Board of Directors. However, this report is a matter of public record and its distribution is not limited.

GRANT, MILLMAN & JOHNSON, P.C.  
*Grant, Millman & Johnson, P.C.*

**GRANT, MILLMAN & JOHNSON, P.C.**

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September 2, 2004

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

For the Year Ended June 30, 2004

Board of Directors  
Michigan Automotive Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Michigan Automotive Academy as of and for the year ended June 30, 2004, which collectively comprise Michigan Automotive Academy's basic financial statements and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Michigan Automotive Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Michigan Automotive Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial

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August 18, 2003

## Independent Auditor's Report

Board of Directors  
Michigan Automotive Academy

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	16-17

We have audited the accompanying general-purpose financial statements of Michigan Automotive Academy as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Michigan Automotive Academy as of June 30, 2003 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2003 on our consideration of the Michigan Automotive Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

GRANT, MILLMAN & JOHNSON, P.C.

*Grant, Millman & Johnson, P.C.*

MICHIGAN AUTOMOTIVE ACADEMY  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
June 30, 2003

	Governmental Fund		Account Group	
	General	Special Revenue Fund	General Fixed Assets	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,535,046	\$ -	\$ -	
Accounts Receivable:				
State Aid Revenue	847,840	720	-	
Other	13,834	-	-	
Deposits	26,751	-	-	
Leasehold Improvements and Equipment	-	-	2,203,900	
Amount to be Provided for Retirement of Long-Term Debt	-	-	-	
<b>TOTAL ASSETS</b>	<b>\$ 2,423,471</b>	<b>\$ 720</b>	<b>\$ 2,203,900</b>	
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities:				
Accounts Payable	\$ 97,046	\$ -	\$ -	
Note Payable	1,824,832	-	-	
Long-Term Obligations	-	-	-	
<b>Total Liabilities</b>	<b>1,921,878</b>	<b>-</b>	<b>-</b>	
Fund Equity:				
Investment in General Fixed Assets	-	-	2,203,900	
Fund Balance Unreserved:				
Undesignated	501,793	720	-	
<b>Total Fund Equity</b>	<b>501,793</b>	<b>720</b>	<b>2,203,900</b>	
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 2,423,471</b>	<b>\$ 720</b>	<b>\$ 2,203,900</b>	

The Accompanying Notes are an Integral Part of These Financial Statements



MICHIGAN AUTOMOTIVE ACADEMY

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
For the Year Ended June 30, 2003

	General	Special Revenue	Totals (Memorandum Only)
<b>REVENUE</b>			
Local Sources	\$ 33,757	\$ 9,295	\$ 43,052
State Sources	4,874,257	720	4,874,977
Federal Sources	67,812	50,543	118,355
Other Financing Sources:			
Net Proceeds from Debt Service	988,000	-	988,000
Operating Transfers	-	37,321	37,321
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>5,963,826</b>	<b>97,879</b>	<b>6,061,705</b>
<b>EXPENDITURES</b>			
Instruction	2,438,431	-	2,438,431
Supporting Services	3,284,756	97,159	3,381,915
Debt Service	281,949	-	281,949
Other Uses:			
Operating Transfers	37,321	-	37,321
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b>6,042,457</b>	<b>97,159</b>	<b>6,139,616</b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>(78,631)</b>	<b>720</b>	<b>(77,911)</b>
<b>FUND BALANCE - Beginning of Year</b>	<b>580,424</b>	<b>-</b>	<b>580,424</b>
<b>FUND BALANCE - End of Year</b>	<b>\$ 501,793</b>	<b>\$ 720</b>	<b>\$ 502,513</b>

The Accompanying Notes are an Integral Part of These Financial Statements

MICHIGAN AUTOMOTIVE ACADEMY

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES  
For the Year Ended June 30, 2003

	Budget	Actual	Favorable (Unfavorable) Variance
<b>REVENUE</b>			
Local Sources	\$ 16,800	\$ 33,757	\$ 16,957
State Sources	4,905,328	4,874,257	(31,071)
Federal Sources	67,812	67,812	-
Other Financing Sources:			
Other Sources	-	988,000	988,000
Operating Transfers	-	-	-
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>4,989,940</b>	<b>5,963,826</b>	<b>973,886</b>
<b>EXPENDITURES</b>			
Instruction	2,465,211	2,438,431	26,780
Supporting Services	2,489,853	3,284,756	(794,903)
Debt Service	158,000	281,949	(123,949)
Other Uses:			
Operating Transfers	40,000	37,321	2,679
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b>5,153,064</b>	<b>6,042,457</b>	<b>(889,393)</b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<b>\$ (163,124)</b>	<b>(78,631)</b>	<b>\$ 84,493</b>
<b>FUND BALANCE - Beginning of Year</b>		<b>580,424</b>	
<b>FUND BALANCE - End of Year</b>		<b>\$ 501,793</b>	

The Accompanying Notes are an Integral Part of These Financial Statements





## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

## Note 1 - Summary of Significant Accounting Policies (Continued)

**Account Groups** - The Account Groups are not funds - they do not reflect available financial resources and related liabilities or the measurement of results of operations - but are the Academy's accounting records of the general fixed assets and general long-term debt. The General Fixed Assets Account Group is used to maintain records of the cost of property owned by the Academy. The General Long-Term Debt Account Group is used to record the Academy's outstanding long-term notes payable.

**FUND EQUITY**

The reserved fund balances for Governmental funds represent the amount that has been legally identified for specific purposes. Designations of unreserved fund balances in Governmental funds indicate tentative plans for use of financial resources in a future period. Unreserved fund balances for Governmental funds represent the amount available for budgeting future operations.

**BASIS OF ACCOUNTING**

Governmental funds utilize the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

For the year ended June 30, 2003, the State of Michigan utilized the foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from the state sources are primarily governed by the School Aid Act and the School Code of Michigan. The foundation allowance is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, demand deposits and short term investments with original maturities of three months or less. The Academy maintained deposits in excess of federal insured limits at June 30, 2003. These deposits may expose the Academy to concentrations of credit risk.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

## Note 1 - Summary of Significant Accounting Policies (Continued)

**ADMINISTRATIVE SERVICES**

Michigan Automotive Academy entered into a management agreement with Helicon Associates, Inc. for a term of three years commencing August, 1999. Under the terms of the management agreement, Helicon Associates, Inc. provides all the required labor, materials and supervision necessary for the provision of educational services to the students, as well as the management, operation and maintenance of the Academy. All costs incurred in providing this educational program at the Academy are reimbursed by the Academy to Helicon Associates, Inc. In addition, the Academy pays a management fee based on the number of students for which the Academy receives State funding times \$300, with a minimum annual fee of \$30,000.

Management fees for the year ended June 30, 2003 were \$225,388.

## Note 2 - Budgets

The Academy formally adopted a budget for the General Fund for the fiscal year ended June 30, 2003. Expenditures at this level in excess of the amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded. During the year ended June 30, 2003, the budget was amended in a legally permissible manner.

## Note 3 - Commitments and Contingencies

Michigan Automotive Academy has entered into leases for its facilities. The Romulus location lease is for a term of five years commencing on January 1, 2000 requiring annual rent of \$93,482. The Detroit Meyers location lease is for a term of five years commencing July 1, 2000 requiring annual lease payments of ten percent of the per pupil enrollment grant received from the State of Michigan with minimum annual rents of \$95,490. The Detroit Mansfield location lease is for a term of ten years commencing July 1, 2002 requiring minimum annual rents of \$100,000. In addition, the Academy leases various office equipment expiring through December 2003 with monthly rents of \$614.

Future minimum lease commitments as of June 30, 2003 are as follows:

Year Ended June 30,	
2004	\$290,572
2005	\$242,236
2006	\$100,000
2007	\$100,000
2008	\$100,000
Thereafter	\$400,000

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2003

Note 4 - Risk Management

The Academy is exposed to various risks of loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage since inception.

Note 5 - Contingencies

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2003.

Note 6 - Changes in General Fixed Assets

A summary of changes in general fixed assets are as follows:

	Balance Beginning of Year	Additions	Dispositions	Balance End of Year
Leasehold Improvements	\$ 541,144	\$ 1,088,538	\$ -	\$ 1,630,682
Instructional Vehicles	40,000	-	-	40,000
Furniture and Equipment	368,579	164,639	-	533,218
<b>TOTAL</b>	<b>\$ 949,723</b>	<b>\$ 1,254,177</b>	<b>\$ -</b>	<b>\$ 2,203,900</b>

Note 7 - Note Payable

Note payable at June 30, 2003 is as follows:

State Aid Anticipation Note payable to a bank, due on demand with interest at 3% above the prevailing prime rate. The note is secured by assets of the Academy. \$ 254,049

State Aid Anticipation Note payable to a bank, due September 30, 2003 with interest at 1/2% below the prevailing prime rate. The note is secured by the Academy's State School Aid Funds. \$1,570,553  
\$1,824,632

MICHIGAN AUTOMOTIVE ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2003

Note 8 - Long-Term Debt

Long-term debt at June 30, 2003 consists of the following:

Capital lease payable to a bank, payable in monthly installments of \$8,124 through August 2004, secured by equipment. \$ 82,218

Note payable to G&L Associates, Inc., payable in monthly installments of \$4,364 with interest at 10%, maturing in December 2004. 72,288

Note payable to the Archdiocese of Detroit, payable in monthly installments of \$10,417 with interest at 5.5%, maturing in June 2012. 910,769

**Total Long-Term Debt** **\$1,065,285**

Current maturities on long-term debt are as follows:

Year Ended June 30,	Principal	Interest	Total
2004	\$193,809	\$ 57,040	\$250,849
2005	\$118,691	\$ 44,739	\$163,430
2006	\$ 85,737	\$ 39,263	\$125,000
2007	\$ 90,573	\$ 34,427	\$125,000
2008	\$ 95,682	\$ 29,318	\$125,000
Thereafter	\$480,793	\$112,669	\$593,462

**GRANT, MILLMAN & JOHNSON, P.C.**

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August 18, 2003

**Independent Auditor's Report on Supplemental Information**

**Board of Directors  
Michigan Automotive Academy**

We have audited the general-purpose financial statements of Michigan Automotive Academy as of and for the year ended June 30, 2003. Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of Michigan Automotive Academy. This information has been subjected to the procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

GRANT, MILLMAN & JOHNSON, P.C.

*Grant, Millman & Johnson, P.C.*

**SUPPLEMENTAL INFORMATION**

MICHIGAN AUTOMOTIVE ACADEMY

SCHEDULE OF REVENUE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2003

	General Fund		Favorable (Unfavorable) Variance
	Budget	Actual	
<b>LOCAL SOURCES</b>			
Investment Income	\$ 3,300	\$ 3,362	\$ 62
Other	13,500	30,395	16,895
<b>TOTAL LOCAL SOURCES</b>	<b>16,800</b>	<b>33,757</b>	<b>16,957</b>
<b>STATE SOURCES</b>			
State School Aid Membership	4,646,891	4,647,500	609
Vocational Ed (Sec 61a.1)	155,862	123,227	(32,435)
At-Risk (Sec 31a)	50,000	50,765	765
Other	52,775	52,775	-
<b>TOTAL STATE SOURCES</b>	<b>4,905,328</b>	<b>4,874,257</b>	<b>(31,071)</b>
<b>FEDERAL SOURCES</b>			
Title I Grant	49,957	49,957	-
Title IIA Grant	14,366	14,366	-
Other	3,489	3,489	-
<b>TOTAL FEDERAL SOURCES</b>	<b>67,812</b>	<b>67,812</b>	<b>-</b>
<b>DEBT SERVICE</b>			
Note Payable	-	988,000	988,000
<b>TOTAL DEBT SERVICE</b>	<b>-</b>	<b>988,000</b>	<b>988,000</b>
<b>TOTAL REVENUE</b>	<b>\$ 4,989,940</b>	<b>\$ 5,963,826</b>	<b>\$ 973,886</b>

See Independent Auditor's Report on Supplemental Information

MICHIGAN AUTOMOTIVE ACADEMY

SCHEDULE OF INSTRUCTION EXPENDITURES - BUDGET AND ACTUAL  
For the Year Ended June 30, 2003

	General Fund		Favorable (Unfavorable) Variance
	Budget	Actual	
<b>Elementary:</b>			
Purchased Services	\$ 724,340	\$ 719,668	\$ 4,672
Teaching Supplies and Materials	38,000	28,257	9,743
Textbooks	18,000	16,250	1,750
Purchased Equipment and Furniture	60,000	57,580	2,420
Other	5,500	11,852	(6,352)
<b>Middle School:</b>			
Purchased Services	516,075	505,974	10,101
Teaching Supplies and Materials	18,500	16,115	2,385
Textbooks	70,000	66,383	3,617
Purchased Equipment and Furniture	70,000	68,629	1,371
Other	5,000	3,279	1,721
<b>High School:</b>			
Purchased Services	554,592	550,569	4,023
Teaching Supplies and Materials	35,000	53,301	(18,301)
Textbooks	14,500	12,251	2,249
Purchased Equipment and Furniture	41,000	38,430	2,570
Other	10,000	9,918	82
<b>Added Needs:</b>			
Purchased Services	257,986	257,290	706
Teaching Supplies and Materials	8,001	5,807	2,194
Workshops and Conferences	15,000	13,289	1,731
Dues and Fees	3,707	3,609	98
<b>TOTAL INSTRUCTION EXPENDITURES</b>	<b>\$ 2,465,211</b>	<b>\$ 2,438,431</b>	<b>\$ 26,780</b>

See Independent Auditor's Report on Supplemental Information

MICHIGAN AUTOMOTIVE ACADEMY

SCHEDULE OF SUPPORTING SERVICES EXPENDITURES - BUDGET AND ACTUAL  
For the Year Ended June 30, 2003

	General Fund		Favorable (Unfavorable) Variance
	Budget	Actual	
Board of Education Expenditures:			
Attorney	\$ 2,000	\$ 1,266	\$ 734
Auditing	11,500	12,145	(645)
Postage	2,000	1,786	234
Advertising	18,500	16,000	3,500
Dues and Subscriptions	4,500	3,886	814
Other	4,500	3,209	1,291
Total Board of Education Expenditures	43,000	37,072	5,928
Executive Administration Expenditures:			
Purchased Management Services	254,450	225,388	29,062
CMU Oversight Fee	140,000	139,416	584
Technology Fees	58,000	55,684	1,316
Total Executive Administration Expenditures	452,450	421,488	30,962
School Administration Expenditures:			
Purchased Services	429,553	424,697	4,856
Postage	8,500	6,262	2,238
Equipment Lease	30,000	33,035	(3,035)
Office Supplies	41,500	38,229	3,271
Capital Outlay	2,000	1,791	209
Other	7,000	4,995	2,005
Total School Administration Expenditures	518,553	508,009	9,544
Business Service Expenditures:			
Building and Liability Insurance	14,100	14,052	48
Accounting	25,000	25,000	-
Bank Charges	2,750	2,170	580
Dues and Fees	65,000	62,809	2,191
Total Business Service Expenditures	106,850	104,031	2,819
Operations and Maintenance Expenditures:			
Rent - Buildings	559,500	434,187	125,313
Insurance	55,000	41,765	13,235
Telephone	19,000	19,869	(869)
Heat	54,000	49,752	4,248
Electric	35,000	30,933	4,067
Water and Sewer	28,000	30,477	(2,477)
Waste Disposal	12,000	10,205	1,795
Building Maintenance and Repair	132,000	129,836	2,164
Lawn Care and Snow Removal	15,000	13,678	1,322
Janitorial Services	290,000	289,578	424
Capital Outlay	89,000	1,087,747	(998,747)
Supplies and Materials	31,500	30,754	746
Other	7,500	4,923	2,577
Total Operations and Maintenance Expenditures	1,327,500	2,173,702	(846,202)
Transportation Expenditures:			
Purchased Services	41,500	39,454	2,046
Total Other Expenditures	41,500	39,454	2,046
TOTAL SUPPORTING SERVICES EXPENDITURES	\$ 2,489,853	\$ 3,284,756	\$ (794,903)

See Independent Auditor's Report on Supplemental Information

MICHIGAN AUTOMOTIVE ACADEMY

SCHEDULE OF DEBT SERVICE EXPENDITURES -  
BUDGET AND ACTUAL  
For the Year Ended June 30, 2003

	Budget	Actual	Favorable (Unfavorable) Variance
Principal	\$ 108,000	\$ 184,961	\$ (76,961)
Interest	50,000	96,988	(46,988)
TOTAL DEBT SERVICE EXPENDITURES	\$ 158,000	\$ 281,949	\$ (123,949)

See Independent Auditor's Report on Supplemental Information

MICHIGAN AUTOMOTIVE ACADEMY

SPECIAL REVENUE FUND SCHEDULE OF REVENUE AND EXPENDITURES -  
BUDGET AND ACTUAL  
For the Year Ended June 30, 2003

	Budget	Actual	Favorable (Unfavorable) Variance
<b>REVENUE</b>			
Local Sources	\$ 9,295	\$ 9,295	\$ -
State Sources	-	720	720
Federal Sources	48,705	50,543	1,838
Other Financing Sources:			
Operating Transfers	40,000	37,321	(2,679)
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>98,000</b>	<b>97,879</b>	<b>(121)</b>
<b>EXPENDITURES</b>			
Supporting Services:			
Purchased Services	98,000	97,159	841
<b>TOTAL EXPENDITURES</b>	<b>98,000</b>	<b>97,159</b>	<b>841</b>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ 720</b>	<b>\$ 720</b>

See Independent Auditor's Report on Supplemental Information

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August 18, 2003

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

For the Year Ended June 30, 2003

Board of Directors  
Michigan Automotive Academy

We have audited the financial statements of Michigan Automotive Academy as of and for the year ended June 30, 2003, and have issued our report thereon dated August 18, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Michigan Automotive Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Michigan Automotive Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in

August 18, 2003  
Board of Directors  
Michigan Automotive Academy

Internal Control Over Financial Reporting (Continued)

relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management and Board of Directors. However, this report is a matter of public record and its distribution is not limited.

GRANT, MILLMAN & JOHNSON, P.C.

*Grant, Millman & Johnson, P.C.*



## **Exhibit C**

### **SUMMARY OF CERTAIN MICHIGAN STATUTORY PROVISIONS PERTAINING TO PUBLIC SCHOOL ACADEMIES**

## **EXHIBIT C**

### **SUMMARY OF CERTAIN MICHIGAN STATUTORY PROVISIONS PERTAINING TO PUBLIC SCHOOL ACADEMIES**

#### ***Definition of Public School Academy (M.C.L. § 380.501(1), 380.502(1))***

A public school academy is state-supported public school that is considered both a body corporate and a governmental agency. According to the statutes, a public school academy corporation must be organized under Michigan's non-profit corporation act, M.C.L. §§ 450.2101 to 450.3192. A public school academy is also considered a school district for purposes of borrowing money and issuing notes and bonds pursuant to M.C.L. § 380.1225 and 380.1351a, respectively, and it is subject to the leadership and general supervision of the state board of public education. The state board of education is responsible for issuing an annual comprehensive report evaluating public school academies to the house and senate committees on education. See M.C.L. § 380.501a.

#### ***Sponsors of and Applicants for Public School Academies (M.C.L. § 380.502)***

Charter contracts may be issued by any one of the following authorizing bodies: (i) local school districts, (ii) intermediate school districts, (iii) community colleges, and (iv) state public universities. Any person interested in operating a public school academy may apply to an authorizing body.

Currently, there is a cap on the number of charter contracts that can be issued by state public universities. The number of contracts for public school academies issued by all state public universities is 150. The number of contracts issued by any one state university shall not exceed 50% of the maximum total that may be issued by state universities.

#### ***Method of Establishment and Oversight of Public School Academies (M.C.L. § 380.502(3-7))***

When a person applies for a contract to operate a public school academy, the application must: (1) identify the applicant; (2) list the proposed members of the board of directors of the public school academy and a description of the qualifications and method for appointment or election of the board of directors; (3) include a copy of the proposed articles of incorporation for the public school academy, including (i) the name of the proposed public school academy, (ii) the purposes of the public school academy, (iii) the name of the authorizing body, (iv) the proposed time when the articles of incorporation will be effective, and (v) other matters as necessary; (4) include a copy of the proposed bylaws of the public school academy; (5) document the requirements of the authorizing body, including (i) the governance structure of the public school academy, (ii) a copy of the educational goals of the public school academy, the curricula to be offered, and the methods of pupil assessment, (iii) the admission policy and criteria to be maintained, (iv) the school calendar and school day schedule, and (v) the age or grade range of pupils to be enrolled; (6) describe staff responsibilities and the governance structure; (7) identify the local and intermediate school districts in which the public school academy will be located; (8) agree that the public school academy will comply with all applicable state and federal laws; (9) for an application to a school district, assure that employees of the public school academy will be covered by collective bargaining agreements that apply to other public employees in schools; and (10) describe and identify the address where the public school academy will be located.

An authorizing body that issues a contract for a public school academy must oversee the public school academy to ensure that the public school academy is in compliance with statutes, rules, and the terms of the contract. If an authorizing body grants a charter contract, it may charge a fee that does not exceed 3% of the total state school aid received by the public school academy in the school year in which the fees and expenses are charged. An authorizing body may contract with a public school academy for other services aside from the oversight services.

***Legal Status of Public School Academy (M.C.L. § 380.501, 380.503b)***

A public school academy is a body corporate, a governmental agency, a public school, and is considered a school district under certain provisions of State law. If a public school academy enters into an agreement, mortgage, loan, or other instrument of indebtedness with a third party, such arrangement does not constitute an obligation, either general, special, or moral of the State of Michigan or the authorizing body. The State or an authorizing body is not liable for any debt incurred by a public school academy.

***Public School Academy Funding (§ 388.1601 et. seq.; § 141.2101 et. seq.)***

A public school academy receives funding through the per pupil base foundation, as calculated in Michigan's State School Aid Act, M.C.L. § 388.1601 et. seq. The School Aid Act currently provides that pupil membership is based upon a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education. A public school academy's State School Aid is sent directly to the academy's authorizing body, which takes its 3% fee and then forwards the remainder of the aid payments to the public school academy. Pursuant to the State School Aid Act, a school district receives its annual State School Aid entitlement in eleven equal Financing Agreements on dates in October through August, subject to certain statutory adjustments. By law, a public school academy's State School Aid payment must not exceed the per-pupil base foundation received by the local school district in which the public school academy is located.

A public school academy may not charge tuition and may not levy taxes. A public school academy may receive federal grant funds directly from the Michigan Department of Education by following the same procedures that local school districts are required to follow. A public school academy may borrow money and may issue bonds in accordance with the Revised School Code, M.C.L. § 380.1 et. seq., and the Revised Municipal Finance Act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821.

***Authorizing Body's Duties With Respect to State School Aid Payments (M.C.L. § 380.507)***

The authorizing body for a public school academy is the fiscal agent for the public school academy; therefore, it receives state school aid payments on behalf of the public school academy and then forwards such aid payments to the public school academy (less a fee that it may charge which does not exceed 3% of the total state school aid received by the public school academy in the school year in which the fees and expenses are charged).

***Withholding payment; plan for financing outstanding obligation defaulted upon by a public school academy; use of amounts withheld; agreement assigning or pledging payment (M.C.L. § 388.1617a(1) and a(3))***

The Michigan Department of Treasury may withhold all or part of any payment of State School Aid that a public school academy is entitled to receive to the extent the withholdings are a component part of a plan, developed and implemented pursuant to the revised municipal finance act, 2001 PA 34, MCL 141.2101, *et al*, or other statutory authority, for financing an outstanding obligation upon which the public school academy defaulted. Amounts withheld shall be used to pay, on behalf of the public school academy, unpaid amounts or subsequently due amounts, or both, of principal and interest on the outstanding obligation upon which the public school academy defaulted.

Under an agreement entered into by a public school academy assigning all or a portion of the payment of State School Aid that it is eligible to receive to a trustee of a pooled arrangement, such as the Authority, or pledging the amount for payment of an obligation it incurred with a trustee of a pooled arrangement, the state treasurer shall transmit to a trustee designated by the Authority or the trustee of a pooled arrangement the amount of the payment of the State School Aid that is assigned or pledged under the agreement. Notwithstanding the payment dates prescribed by this act for distributions under this act, the state treasurer may advance all or part of a payment that is dedicated for distribution or for which the appropriation authorizing the payment has been made if and to the extent, under the terms of an agreement entered into by a district or intermediate district and the Michigan municipal bond authority, the payment that the district or intermediate district is eligible to receive has been assigned to or pledged for payment of an obligation it incurred with the Michigan municipal bond authority. This section does not require the State of Michigan to make an appropriation to any public school academy and shall not be construed as creating

an indebtedness of the State of Michigan, and any agreement made pursuant to this section shall contain a statement to that effect.

***Deficit Budget or Operating Deficit (M.C.L. § 388.1702)***

Michigan law provides that a public school academy receiving State School aid shall not adopt or operate under a deficit budget, or incur an operating deficit in any fund, during a school fiscal year. Where a public school academy has an existing deficit or incurs a deficit fund balance, such public school academy shall not receive payments under the School Aid Act until it submits to the Michigan Department of Education (the "Department") a budget for the current school fiscal year and a plan for the elimination of the deficit not later than the end of the second school fiscal year after the deficit was incurred. In addition, a public school academy with an existing deficit or which incurs a deficit shall submit to the Department a monthly monitoring report on revenue and expenditures in a form prescribed by the Department. Any State School Aid funds that have been withheld from a public school academy due to a deficit will be released to the public school academy after the Department approves the deficit reduction plan and ensures that the budget for the current school fiscal year is balanced.

***Application of Money Received Under State School Aid Act (M.C.L. § 388.1618(1))***

Not more than 20% of the total amount of State School Aid received by a public school academy may be transferred by the board to either a capital projects fund or to the debt retirement fund for debt service. The Michigan Department of Treasury determines the reasonableness of expenditures and may withhold State School Aid from a public school academy otherwise due for the fiscal year following the discovery by the Michigan Department of Treasury of a violation by the recipient.

***Property of Public School Academy to be Transferred to State (M.C.L. 388.1618b)***

Property of a public school academy, including title to all real and personal property, interests in real or personal property, and other assets owned by the public school academy corporation, that was acquired substantially with State School Aid funds shall be transferred to the State by the public school academy corporation if any of the following occur:

- (a) The public school academy has been ineligible to receive State School Aid for 18 consecutive months;
- (b) The public school academy's charter has been revoked;
- (c) The public school academy's charter has not been reissued by the authorizing body.

The State Treasurer of the State of Michigan, or his designee, is authorized to dispose of property transferred to the State in this fashion. Except as otherwise provided in this section, the State Treasurer of the State of Michigan shall deposit in the state school aid fund any money included in that property and the net proceeds from the sale of the property or interests in property, after payment by the State Treasurer of the State of Michigan of any public school academy debt secured by the property or interest in property.

***Revocation of Charter (M.C.L. § 380.507)***

A charter contract may be revoked by the authorizing body for the following reasons: (1) failure of the public school academy to abide by and meet the educational goals set forth in the contract, (2) failure of the public school academy to comply with all applicable law, (3) failure of the public school academy to meet generally accepted public sector accounting principles, and (4) any other grounds for revocation as specified in the charter contract. The decision to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any state agency.

***Issuance of Contracts (M.C.L. § 380.503)***

Public school academy contracts shall be issued on a competitive basis, while taking the following into consideration: (1) the resources available for the proposed public school academy, (2) the population to be served by the public school academy, and (3) the educational goals to be achieved by the public school academy. With respect

to applications to a local school district, if the board denies an application for a public school academy contract, the person who applied for the contract may petition the board to place the question of the issuance of the contract on a ballot to be decided by the school electors of the school district. The petition must contain the same requirements that are to be included in an application for a charter contract and must be signed by at least 15% of the school electors in that school district.

Within 10 days of issuing a contract for a public school academy, the authorizing body must submit to the superintendent of public instruction a copy of the contract and application. The authorizing body must also adopt a resolution establishing the method of selection, length of term, and number of members of the board of directors of each public school academy subject to its jurisdiction.

A public school academy contract must at least include the following: (1) the educational goals of the public school academy and methods by which it will be held accountable (at a minimum, the pupil performance must be assessed using a Michigan educational assessment program ("MEAP") test or an assessment instrument developed under Michigan's Revised School Code); (2) the method to be used to monitor the public school academy's compliance with applicable laws and its performance in meeting its educational objectives; (3) a description of the process for amending the contract during the term of the contract; (4) all the matters required to be included in the application to an authorizing body for a charter contract; (5) for public school academies authorized by a school district, an agreement that the employees of the public school academy will be covered by any collective bargaining agreements that apply to the employees of the school district; (6) procedures and grounds for revoking the contract; (7) a description and address of the physical plant in which the public school academy will be located; and (8) requirements and procedures for financial audits, which are to be conducted at least annually by a certified public accountant in accordance with generally accepted governmental auditing principles.

Among the laws with which public school academies must comply are Michigan's Revised School Code, Michigan's State School Aid Act, the Open Meetings Act, the Freedom of Information Act, the Uniform Budgeting and Accounting Act, the Revised Municipal Finance Act, and other state and federal laws applicable to public school academies.

Public school academies and their board members, officers and staff have governmental immunity. Public school academies may acquire, hold, and own in their own name buildings and other property for school purposes and may condemn property if certain conditions are met. Public school academies are exempt from all taxation on their earnings and property. They may not levy ad valorem property taxes or any other taxes for any purpose.

#### ***Tuition and Admission at Public School Academies (M.C.L. § 380.504)***

A public school academy may not charge tuition and may not discriminate in its pupil admissions policies or practices based on race, disability, religion, gender, test scores, intellectual or athletic ability, measures of achievement or aptitude, or any other basis prohibited by law. However, a public school academy may predetermine the ages, grades, and number of students it will serve. If the number of applications to enroll in the public school academy exceeds the school's enrollment capacity, the public school academy shall use a random selection process for selecting pupils. Public school academies may operate any grades from kindergarten through grade 12 and may also operate early childhood education programs, an adult basic education program, adult high school completion program, or general educational development testing preparation program.

#### ***Additional Powers of Public School Academies (M.C.L. § 380.504a, 380.506)***

In addition to other powers, a public school academy may take action to carry out its educational mission. For that purpose, a public school academy has the power to: (i) sue and be sued, (ii) acquire, hold, and own in its own name real and personal property for educational purposes, and sell or convey the property, (iii) receive, disburse, and pledge funds for lawful purposes, (iv) enter into binding legal agreements with persons or entities as necessary for the operation, management, financing, and maintenance of the public school academy, (v) incur temporary indebtedness as authorized by state statutes, (vi) solicit and accept grants or gifts for educational purposes and establish non-profit corporations for the purpose of assisting the public school academy in furtherance of its public purposes, and (vii) borrow money and issue bonds in accordance with relevant state statutes.

Bonds issued by a public school academy are full faith and credit obligations of the public school academy, pledging the general funds or any other money available for such a purpose. Bonds issued by a public school academy are subject to the revised municipal finance act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821.

Public school academies, with the approval of the authorizing body, may employ or contract with personnel as necessary for the operation of the public school academy, prescribe their duties, and fix their compensation.

***Teachers and Noncertified Individuals (M.C.L. § 380.505)***

Teachers in public school academies are subject to the same certification requirements as traditional public schools, with two exceptions. First, public school academies authorized by a state university may use as a classroom teacher a faculty member who is employed full-time by the university and has institutional tenure or is designated as being on tenure track. Second, public school academies authorized by a community college may use as a classroom teacher a full-time faculty member who has at least five years experience in teaching the subject matter he or she is teaching at the public school academy. Public school academies may develop and implement new teaching techniques or make significant revisions to known techniques. Public school academies must report these practices to the authorizing body and the state board.

THE CHARTER SCHOOL LAWS AND SCHOOL AID ACT ARE SUBJECT TO MODIFICATION BY THE MICHIGAN LEGISLATURE. THE AMOUNT, TIMING AND METHODOLOGY FOR CALCULATION OF STATE SCHOOL AID HAS CHANGED SIGNIFICANTLY IN RECENT YEARS, AND IS SUBJECT TO FUTURE LEGISLATIVE CHANGES.

## **Exhibit D**

### **SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS**

## **EXHIBIT D**

### **SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS**

The following is a summary of certain provisions of the Indenture, the Financing Agreement and of definitions of certain terms used therein and in this Official Statement. Reference is made to the Indenture and the Financing Agreement for a complete statement of the provisions of such documents. Until the dated delivery of the Bonds, the provisions of these documents are subject in all respects to changes, deletions and variations therein and thereafter to supplement and amendment in accordance with these terms. Except as otherwise defined herein, the terms defined or used in this summary which are defined in the Indenture or the Financing Agreement shall have the same meanings herein as in those respective documents.

### **DEFINITIONS OF CERTAIN TERMS**

“Academy” means Michigan Technical Academy, a public school academy organized and existing under the laws of the State of Michigan, or its successors or assigns.

“Additional Bonds” means the additional bonds which are authorized to be issued in one or more series from time to time under the Indenture.

"Additional Payments" means all payments required of the Academy under the Financing Agreement other than Installment Payments and Reserve Fund Payments.

“Authority” means the Michigan Public Educational Facilities Authority.

“Authorized Academy Representative” means the President of the Academy or any other officer of the Academy so designated by resolution of the Academy Board.

"Authorizing Body" means Central Michigan University Board of Trustees.

“Beneficial Owner” means, when the Bonds are held in a book-entry only system, the owner of a Bond or portion thereof for federal income tax purposes.

“Bond” or “Bonds” means the Series 2006 Bonds and any Additional Bonds authorized to be issued under the Indenture.

“Bond Counsel” means a firm of nationally recognized attorneys at law acceptable to the Authority and experienced in legal work relating to the issuance of bonds the interest on which is excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

"Bond Documents" means the Financing Agreement, the Mortgage, the Security Agreement, the Indenture, the State Aid Agreement, the Continuing Disclosure Agreement, the Environmental Indemnity Agreement and the Bond Purchase Agreement.

“Bond Fund” means the Bond Fund established under the Indenture.

“Bond Payment Date” means any of the dates specified in the Indenture for payment of interest on the Bonds and payment of principal, i.e., the first day of February and August of each year, and the



first day of February for principal until the respective Bonds are paid in accordance with their terms, the first Bond Payment Date being August 1, 2006.

“Bondholder” or “holder” (when used in reference to Bonds) means the registered owner of any Bond.

“Bond Register” means the books of the Authority kept by the Trustee to evidence the registration, transfer and exchange of Bonds.

"Bond Servicing Costs" means the fees, expenses and charges, other than those constituting Costs of Issuance, from time to time payable to the Authority, the Trustee, rating agencies, Bond Counsel, Counsel, accountants, professional accountants, financial advisor, service companies or others and directly related or allocable to the Bonds, and such other fees and expenses as may be provided in the Financing Agreement.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations proposed and promulgated from time to time thereunder and under the predecessor code.

"Collateral Documents" means the State Aid Agreement, Mortgage, the Security Agreement and any other agreements related thereto or entered into by the Academy for the purpose of pledging collateral as security for the Academy's obligations under the Financing Agreement.

"Company" means Acme Properties Group, LLC, a Michigan limited liability company.

“Costs of Issuance” means any administrative costs of the Authority or Academy or items of expense payable or reimbursable directly or indirectly by the Authority or Academy and related to the authorization, sale, and issuance of the Bonds or acquisition thereof, which items of expense shall include, but not be limited to, underwriter or placement agent fees, printing costs, costs of reproducing documents, filing and recording fees, fees and charges of the Trustee, fees and charges of the Authority, legal fees and charges, professional consultants’ fees, financial advisor’s fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the Costs of Issuance Fund established pursuant to the Indenture.

"Counsel" means an attorney, or firm thereof, admitted to practice law before the highest court of any state in the United States of America or the District of Columbia.

"Default" means an event which, with notice and lapse of time, would constitute an Event of Default under the Indenture or under the Financing Agreement.

“Effective Date” means the date of delivery of the Series 2006 Bonds at which time the Indenture becomes effective.

“Eligible Investment” means such of the following as shall mature, be subject to redemption by the holder thereof at the option of such holder, or otherwise be available for the use intended, not later than the respective dates when the moneys will be required for the purposes intended and which meet the Rating Standard: (i) Government Obligations, (ii) certificates of deposit or trust deposits issued by any bank or trust company whose deposits are insured by the Federal Deposit Insurance Corporation, (iii) debentures or notes issued by any of the following Federal agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Loan Banks, Export-Import Bank of the United States, Governmental

National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or Federal Home Loan Banks, Federal Land Banks (including participation certificates issued by such agencies) and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, (iv) an Investment Agreement, (v) obligations the interest on which is excluded from gross income for purposes of federal income tax under the Code, (vi) commercial paper, (vii) bonds or notes which are general obligations of the State, (viii) bonds, notes, debentures and other obligations issued by corporations including banks and other financial institutions, (ix) money market mutual funds comprised entirely of Government Obligations or repurchase agreements fully collateralized by Government Obligations, including, without limitation, any JPMorgan Money Market Mutual Fund or any other mutual fund meeting the foregoing requirements for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (A) the Trustee or an affiliate of the Trustee receives fees from such funds for services it or its affiliate renders to such fund in respect of such investment, (B) the Trustee charges and collects fees for services it renders pursuant to this Agreement in respect of such investment, which fees are separate from and may be in addition to the fees received from such funds in respect of such investment, and (C) such services rendered by the Trustee or its affiliates to such funds and pursuant to this Agreement in respect of such investment may at times duplicate those provided to such funds by the Trustee or its affiliates in respect of other investments, and (x) any other investment permitted by the Enabling Legislation and approved by resolution of the Authority.

“Enabling Legislation” shall mean Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that the action proposed to be taken is not prohibited by the laws of the State or the Bond Documents and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds.

“Financing Agreement” or “Agreement” means the Installment Purchase Financing Agreement between the Authority, the Academy and Acme Properties Group, LLC, dated as of February 1, 2006, as the same may be amended or supplemented in accordance with its terms and the terms of the Indenture.

“Government Obligations” means (i) direct obligations of the United States of America (including obligations issued or held in book-entry form), (ii) obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, (iii) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (i) and (ii) provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a special account separate from the general assets of such custodian, and (iv) municipal obligations the timely payment of the principal and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clause (i), (ii) or (iii); provided such obligations are not subject to call by the obligor for redemption prior to maturity, have been called for redemption prior to maturity or, if subject to call by the obligor for redemption prior to maturity, such right to call the obligation for redemption prior to maturity has been waived; provided, however, Government Obligations shall not include any investment which is prohibited or not permitted by the Enabling Legislation.

"Indenture" means the Trust Indenture between the Authority and the Trustee dated as of February 1, 2006, as the same may be amended or supplemented in accordance with its terms.

"Installment Payments" means the installment payments payable by the Academy in accordance with the Financing Agreement which have been assigned to the Authority pursuant to the Financing Agreement.

"Interest Payment Date" means, with respect to the Series 2006 Bonds, February 1 and August 1 of each year commencing August 1, 2006.

"Investment Agreement" means any agreement for the investment of funds held under the terms of the Indenture which is authorized by law, which has been approved by an authorized officer of the Authority.

"Investment Income" means the earnings and profits derived from the investment of moneys in the Proceeds Fund, Reserve Fund, Costs of Issuance Fund and Bond Fund pursuant to the Indenture.

"Judson Lease" means the Lease Agreement with Judson Center, Inc. which commenced on January 1, 2004, as amended December 1, 2005, which lease has been assigned to the Academy, as landlord, pursuant to which Judson Center, Inc. leases 9,965 sq. ft. of the building located on the Site.

"Management Agreement" means the Consultancy Services Agreement dated March 16, 2005, between the Academy and Helicon Associates, Inc., a Michigan corporation, as amended or restated from time to time, and any other subsequent management agreement between the Academy and a management company relating to the management of the Academy's operations.

"Management Consultant" means a professional consulting firm, certified public accounting firm, investment banking firm, or other Person, selected by the Academy, having the skill and experience in the business of Michigan public school academies necessary to render the report required by the Financing Agreement and having a favorable reputation for such skill and experience, which Person shall have no interest, direct or indirect, in the Academy and shall not have a partner, member, director, officer or employee who is a partner, member, director, officer or employee of the Academy.

"Mortgage" means the Mortgage made by the Company to the Trustee encumbering the Site as security for the Academy's obligations under the Financing Agreement, as it may be amended or restated from time to time. The obligations of the Company as mortgagor under the Mortgage shall be assumed by the Academy pursuant to an Assumption of Mortgage dated as of the Effective Date, and all references to the "Mortgage" shall mean the Mortgage, as assumed by the Academy.

"Nonarbitrage Certificate" means, collectively, the Nonarbitrage Certificate delivered by the Authority and the Nonarbitrage and Tax Compliance Certificate delivered by the Academy in connection with the initial delivery of the Series 2006 Bonds.

The term "Outstanding" or "Bonds Outstanding" means the Bonds which have been delivered under the Indenture, except:

- a) Bonds canceled by the Trustee or delivered to the Trustee for cancellation;
- b) Bonds, or portions thereof, for the payment or prepayment of which funds shall have been deposited with the Trustee (whether on or prior to the maturity or prepayment date of any such Bonds); provided, however that if such Bonds are to be redeemed prior to

maturity thereof, notice of such prepayment shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee; and

- c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture.

"Payment Date" shall mean the 20th day of each January, February, March, April, May, June, July, August, October, November and December, unless otherwise adjusted in accordance with the requirements of the Financing Agreement.

"Proceeds Fund" means the Proceeds Fund established pursuant to the Indenture.

"Project" means the acquisition of the Site and building improvements thereon and equipment and furnishings to be used at the Site and other school campuses of the Academy, as more fully described in the forepart of the Official Statement under the heading "THE PROJECT", and related Project costs.

"Rating Standard" means A-1/P-1.

"Registered Owner" means, in connection with a Bond, the person in whose name the Bond is registered on the books of the Authority as kept by the Trustee pursuant to the Indenture.

"Reserve Fund" means the Reserve Fund established pursuant to the Indenture.

"Reserve Fund Payments" means all payments required of the Academy to replenish any deficiency in the Reserve Fund pursuant to the Financing Agreement.

"Reserve Fund Requirement" means an amount equal to \$538,700, which constitutes the least of (i) the maximum annual principal and interest requirements on the Series 2006 Bonds, (ii) 125% of the average annual principal and interest requirements on the Series 2006 Bonds, or (iii) 10% of the original principal amount of the Bonds (net of original issue discount)

"Resolution" means the resolution adopted by the Authority authorizing, among other things, the issuance and sale of the Series 2006 Bonds.

"School Aid Act" means the State School Aid Act, Michigan Public Act 94 of 1979, as amended, or any successor legislation in replacement thereof.

"School Code" means the Revised School Code, Act No. 451 of the Michigan Public Acts of 1976, as amended, or any successor legislation in replacement thereof.

"Security" means the properties, rights and interest of the Authority specified in the Indenture assigned and pledged to the Trustee as security for the payment of the Bonds, as described under "THE INDENTURE—Security" below.

"Series 2006 Bonds" means the \$6,950,000 Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds (Michigan Technical Academy Project), Series 2006.

"Site" means the real property and improvements commonly known as 23750 Elmira, Charter Township of Redford, Wayne County, Michigan, as further described in the Financing Agreement.

"State" means State of Michigan.

"State Aid Agreement" means the State Aid Agreement dated as of February 1, 2006 among the Authority, the State Treasurer of the State of Michigan, the Authorizing Body, the Academy and the Trustee.

"State School Aid" means state school aid payments made to the Academy pursuant to the School Aid Act or any successor law providing for funding of public schools in Michigan.

"Surplus Bond Proceeds" shall mean any proceeds remaining in the Proceeds Fund upon completion of the Project, as determined in accordance with the Financing Agreement.

"Trustee" means J.P. Morgan Trust Company, National Association, a national banking association, or any successor Trustee serving under the Indenture.

"Unassigned Rights" means the right of the Authority to make all determinations and approvals and receive all notices accorded to it under the Financing Agreement and to enforce in its name and for its own benefit certain provisions of the Financing Agreement with respect to the Authority fees and expenses, and indemnity payments as the interests of the Authority and related persons shall appear.

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## **THE INDENTURE**

### **Authority Covenants**

The Authority represents and covenants under the Indenture as follows:

(a) All representations and covenants of the Authority in the Indenture and in any proceeding, document or certification incidental to issuance of the Bonds shall not create a pecuniary liability of the State of Michigan, the Authority or any agency or employee thereof, except to the extent of available Security. The Authority's obligations under the Indenture and under the Series 2006 Bonds are limited obligations payable solely out of and to the extent of available Security.

(b) The Authority shall, but only out of the Security, promptly pay the principal of, premium, if any, and interest on the Bonds at the place, on the dates and in the manner provided in the Bonds. The Authority shall promptly perform and observe all of its covenants, undertakings and obligations set forth in the Indenture, the Bonds or the Financing Agreement.

(c) The Authority represents that (i) it is duly authorized under the laws of the State of Michigan to issue the Bonds, and to execute, deliver and perform the terms of the Financing Agreement and the Indenture, (ii) all actions on its part for the issuance of the Bonds and the execution and delivery of the Financing Agreement and the Indenture have been duly taken, (iii) the Bonds upon issuance, and the Financing Agreement and the Indenture upon delivery, shall be valid and enforceable obligations of the Authority in accordance with their terms, (iv) it has not heretofore conveyed, assigned, pledged or otherwise disposed of the Security, and (v) it has no knowledge of any right of set-off; defense or counterclaim to payment or performance of the terms or conditions of the Financing Agreement.

(d) The Authority represents that (i) no litigation or administrative action of any nature has been served upon and is now pending, restraining or enjoining its issuance or delivery of the Bonds or its execution and delivery of the Financing Agreement and the Indenture, or in any manner questioning the

proceedings or authority under which the same are being delivered, or affecting the validity of the same, (ii) no contest is pending as to its existence or the incumbency or authority of its present officers, (iii) no authority or proceeding for the issuance of the Bonds or for the payment or security thereof has been repealed, revoked or rescinded, (iv) no petition seeking to initiate any referendum or other measure affecting the same or the proceedings therefor has been served upon the Authority and (v) to the best of the knowledge of the members and officers of the Authority, none of the foregoing actions is threatened.

(e) All books and documents in the possession of the Authority relating to the Bonds and the income and revenues derived from payments under the Financing Agreement shall at all reasonable times be open to inspection by the Trustee and/or its attorneys and agents.

(f) No member, officer or employee of the Authority, including any person executing the Indenture or Bonds, shall be liable personally on the Bonds or subject to any personal liability for any reason relating to the issuance of the Bonds.

## **Security**

The Bonds, together with interest thereon and redemption premium with respect thereto, are limited obligations of the Authority secured by the Financing Agreement, are and shall always be payable solely from the revenues and income derived from the Financing Agreement (except to the extent paid out of moneys attributable to proceeds of the Bonds or the income from the temporary investment thereof), are and shall always be a valid claim of the holders thereof only against the revenues and income derived from the Financing Agreement and from other instruments assigned to or held by the Trustee, which revenues and income shall be used for no other purpose than to pay the principal installments of, redemption premium, if any, and interest on the Bonds, except as may be expressly authorized otherwise in the Indenture or the Financing Agreement. The Bonds and the obligation to pay interest thereon and redemption premiums with respect thereto do not now and shall never constitute an indebtedness or a general obligation of the State of Michigan or the Authorizing Body, or a general obligation of the Authority, within the purview of any constitutional or statutory limitation or provision, or a charge against the general credit or taxing powers, if any, of either of them, but shall be secured by the Security, and shall be payable solely from the revenues and income derived from the Financing Agreement. No owner of the Bonds shall have the right to compel the exercise of the taxing power, if any, of the State of Michigan or any political subdivision thereof to pay any principal installment of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

The Series 2006 Bonds and the interest thereon shall be a limited obligation of the Authority as described above, and shall be secured by and payable only from the following:

a) all Installment Payments received by the Authority under the Financing Agreement, which Installment Payments are to be paid directly by the Academy to the Trustee and deposited in the Bond Fund;

b) all moneys and securities in the Bond Fund, the Reserve Fund, the Costs of Issuance Fund and the Proceeds Fund, including the proceeds of the Series 2006 Bonds pending disbursement thereof pursuant to the Indenture;

c) all of the Authority's rights and interest in the Agreement, except the Unassigned Rights; and

d) all of the proceeds of the foregoing, including without limitation investments thereof and Investment Income.

The foregoing are collectively the “Security”, and, in consideration of the purchase of the Series 2006 Bonds and the obligations of the Trustee under the Indenture; and to secure payment of the principal, premium, if any, and interest in the Series 2006 Bonds and the performance of the Authority’s obligations under the Series 2006 Bonds and the Indenture, the Authority conveys, pledges, assigns and grants a security interest in the Security to the Trustee, and its successors and assigns. This pledge shall be valid and binding from and after the effective date of the Indenture and the Security shall immediately be subject to the lien of such pledge without any physical delivery thereof, recordation of the Indenture, or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

### **Additional Bonds**

The Authority reserves the right to and may, but shall not be required to, issue Additional Bonds upon the request of the Academy, without limit in one or more series for the purposes set forth in, and subject to the requirements of, the Financing Agreement. Additional Bonds shall be of the same priority as the Series 2006 Bonds, and all Bonds issued under the Indenture shall be equally and ratably payable from and secured by the Security, except as to the Reserve Fund, but the Additional Bonds shall bears such dates and interest rates, have maturity dates and redemption dates and prices, and be issued at such prices as shall be approved in writing by the Authority and the Academy. The Reserve Fund secures the Series 2006 Bonds only.

### **Proceeds Fund**

The Indenture establishes a Proceeds Fund with the Trustee. On the Effective Date, the balance of the proceeds of the Series 2006 Bonds not otherwise deposited in the Bond Fund, Reserve Fund or Costs of Issuance Fund shall be deposited in the Proceeds Fund. The Trustee is authorized and directed to make disbursements from the Proceeds Fund on any requisition certificate meeting the requirements of the Financing Agreement. The Trustee shall rely fully on any such requisition certificate delivered pursuant to the Indenture and shall not be required to make any investigation in connection therewith. The Trustee shall keep and maintain adequate records pertaining to the Proceeds Fund and all receipts and disbursements pertaining thereto, and shall furnish monthly statements with respect thereto to the Academy and the Authority. The records of the Trustee with respect to all income and disbursements relating to the Proceeds Fund shall be made available by the Trustee at its designated office during normal business hours, subject to reasonable regulations established by the Trustee, to the Academy and the Authority. Upon receipt of the completion certificate in the form required by the Financing Agreement, the Trustee shall deposit the Surplus Bond Proceeds, if any, in the Bond Fund to be used to pay principal or interest of the Series 2006 Bonds on the next available Bond Payment Date.

### **Bond Fund**

The Indenture establishes a Bond Fund with the Trustee. Within the Bond Fund there shall be established separate trust accounts to be designated the “Revenue Account” and “State Aid Intercept Account”. There shall be deposited in the State Aid Intercept Account of the Bond Fund all pledged State School Aid payments received by the Trustee pursuant to the Financing Agreement. There shall be deposited in the Revenue Account of the Bond Fund all other moneys received by the Trustee for deposit in the Bond Fund.

There shall be deposited in the Bond Fund (a) any proceeds of the Series 2006 Bonds required to be deposited in the Bond Fund pursuant to the Indenture to pay accrued interest or capitalized interest, if any, on the Series 2006 Bonds; (b) all Installment Payments and Additional Payments under the

Agreement, including all proceeds resulting from the enforcement of the Security or any of the Collateral Documents or the realization thereof; (c) investment earnings transferred from the Reserve Fund; and (d) all other moneys received by the Trustee under the Financing Agreement or the Indenture for deposit in the Bond Fund, including Surplus Bond Proceeds, if any.

Amounts on deposit in the State Aid Intercept Account of the Bond Fund shall be paid out and applied in the following order of priority:

(i) first, amounts will be transferred to the Revenue Account of the Bond Fund to satisfy any Installment Payment required to be made by the Academy;

(ii) second, amounts will be transferred to the Reserve Fund to satisfy any Reserve Fund Payment required to be made by the Academy;

(iii) third, as specified in the Agreement and/or as periodically directed by an authorized officer of the Authority, amounts will be used to pay Additional Payments (including any Bond Servicing Costs) required to be made by Academy; and

(iv) fourth, so long as no Event of Default has occurred and is continuing and after satisfaction of all Installment Payments, Additional Payments and Reserve Fund Payments, if any, then due or coming due during the month of such payment, the balance of any moneys remaining in the State Aid Intercept Account shall be distributed to the Authorizing Body or as otherwise directed by the Authority in accordance with the requirements of the Financing Agreement.

The Authority authorizes and directs the Trustee, and the Trustee agrees, to withdraw sufficient funds from the Bond Fund to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable. The Authority and Trustee shall at the direction of the Academy use such moneys to redeem Bonds in the manner and amount as directed, subject to the provisions for redemption of Bonds in the Indenture.

The funds held in the Revenue Account of the Bond Fund shall be invested in accordance with the Indenture. After payment of all principal of, premium, if any, and interest on the Bonds then due as of each February 1 and satisfaction of any other Additional Payments or Reserve Fund Payments then due, the Trustee shall determine the amount of excess funds then held in the Bond Fund as a result of such investment earnings and credit such amount towards the Installment Payment to be paid from the Academy's State School Aid intercepted on the next Payment Date.

In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof, if funds sufficient to pay the principal of and interest on such Bonds shall have been made available to the Trustee for the benefit of the Bondholders, all liability of the Authority and any and all liability of the Academy to the Bondholders, respecting payment of such Bonds shall forthwith cease and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds, without liability for interest thereon, for the benefit of the Bondholders who shall thereafter be restricted exclusively to such funds for any claim under the Indenture or with respect to the Bonds or the interest thereon.

### **Reserve Fund**

The Indenture establishes a Reserve Fund with the Trustee. On the Effective Date, proceeds of the Series 2006 Bonds in an amount equal to the Reserve Fund Requirement shall be deposited in the



Reserve Fund. The Reserve Fund shall receive from time to time moneys required to be deposited therein by the Academy pursuant to the Financing Agreement.

If at any time there are not sufficient funds in the Bond Fund for the payment of principal of, premium, if any, and interest on the Series 2006 Bonds as the same become due, the Trustee shall withdraw from the Reserve Fund (first from the Reserve Account and second from the Authority Contribution Account) and deposit in the Bond Fund sufficient moneys which, when added to the moneys on deposit in the Bond Fund, will be sufficient to meet the payment of principal of, premium, if any, and interest then due on the Series 2006 Bonds.

Earnings realized from Eligible Investments in the Reserve Fund shall be transferred to the Bond Fund on or after each February 1 and August 1, unless the amount on deposit in the Reserve Fund is less than the Reserve Fund Requirement, in which case earnings on the Reserve Fund shall be retained in the Reserve Fund until the amount on deposit therein equals the Reserve Fund Requirement.

### **Costs of Issuance Fund**

The Indenture establishes a Costs of Issuance Fund with the Trustee. Proceeds of the Series 2006 Bonds in amount set forth in the Indenture shall be deposited in the Costs of Issuance Fund and shall be expended and disbursed to pay Costs of Issuance in accordance with the written instructions of the Academy delivered to the Trustee. Any funds remaining in the Costs of Issuance Fund after 30 days after the Effective Date shall be transferred to the Proceeds Fund.

### **Investment of Funds**

Any moneys held as part of the Proceeds Fund, the Bond Fund, the Costs of Issuance Fund and the Reserve Fund shall, subject to the provisions of the Nonarbitrage Certificate, be invested and reinvested by the Trustee in accordance with the oral directions of the Academy (promptly confirmed in writing) in Eligible Investments.

### **Amounts Remaining in Funds and Accounts**

Any amounts remaining in the Proceeds Fund, the Bond Fund and the Reserve Account after full payment of the Bonds and the fees, expenses and other costs and amounts required to be paid under the Financing Agreement or the Indenture shall be paid by the Trustee to the Academy upon full payment of the Financing Agreement.

### **Events of Default and Remedies**

Each of the following events is an “Event of Default” under the Indenture:

(a) Default in the due and punctual payment of interest, premium, if any, or principal on the Bonds, whether at the stated maturity thereof, or upon redemption, or upon the maturity thereof by declaration or otherwise; or

(b) The Authority shall default in the performance or observance of any other covenant, agreement or condition on its part in the Indenture or the Bonds, and continuance of such default for a period of 45 days after written notice thereof to the Authority and the Academy from the Trustee or the holders of not less than 51% in principal amount of the Bonds; provided, however, if such Default is such that it cannot be cured within such period, it shall not constitute an Event of Default if the Default, in the opinion of the Trustee, is correctable and will not have a material adverse effect on the Bondholders or

any of the security for the Series 2006 Bonds and if corrective action is instituted within such period and diligently pursued until the Default is corrected; or

- (c) occurrence of an "Event of Default" under and as defined in the Financing Agreement.

Upon the occurrence and continuance of any Event of Default of which it has notice the Trustee may, and upon written request of the holders of not less than 51% in principal amount of the Bonds then Outstanding shall, enforce its rights by any one or more of the following remedies:

- (i) Declare the entire principal of and accrued interest on the Bonds to be immediately due and payable;
- (ii) Bring action at law or suit in equity upon the Bonds or under the Indenture;
- (iii) Enforce its rights under the Financing Agreement, the Collateral Documents or any other security provided by the Academy; or
- (iv) Pursue any other available remedy under the Bond Documents to enforce payment of the Bonds.

No remedy is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or Bondholders under the Indenture now or hereafter existing by law.

The Trustee shall give notice of any Default or Event of Default to the Authority and the Academy within 30 days after such Default or Event of Default becomes known to the Trustee.

In addition to and without limitation of the foregoing, the Trustee shall not otherwise acquire possession of or take any other action with respect to the property subject to the Mortgage (the "Mortgaged Property"), if as a result of any such action, the Trustee would be considered to hold title to, to be a "mortgagee-in-possession of, or to be an "owner" or "operator" of the Mortgaged Property within the meaning of the Comprehensive Environmental Responsibility Cleanup and Liability Act of 1980, as amended, from time to time, unless the Trustee has previously determined, based on a report prepared by a person who regularly conducts environmental audits, that:

- a) the Mortgaged Property is in compliance with applicable environmental laws or, if not, that it would be in the best interest of the owners of the Bonds to take such actions as are necessary for the Mortgaged Property to comply therewith; and
- b) there are not circumstances present at the Mortgaged Property relating to the use, management or disposal of any hazardous wastes for which investigation, testing, monitoring, containment, clean-up or remediation could be required under any federal, state or local law or regulation, or that if any such materials are present for which such action could be required, that it would be in the best economic interest of the owners of the Bonds to take such actions with respect to the Mortgaged Property.

The environmental audit report contemplated hereby shall not be prepared by an employee or affiliate of the Trustee, but shall be prepared by a person who regularly conducts environmental audits for purchasers of commercial property, as determined (and, if applicable, selected) by the Trustee, and the cost thereof shall be borne by the Academy or the Bondholders but in no event by the Authority.

## Application of Moneys

All moneys received by the Trustee pursuant to any right given or action taken under the Indenture shall be deposited in the Bond Fund. After payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses, liabilities, and advances incurred or made by the Trustee and the creation of a reserve for anticipated fees, costs and expenses, including reasonable attorneys' fees and expenses, and all other current outstanding fees and expenses of the Trustee, such moneys shall be applied in the order set forth below:

(a) Unless the principal on all Bonds shall have become or been declared due and payable, all such moneys shall be applied:

First - To the payment of all installments of interest then due on the Bonds in order of maturity of such installments of interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the ratable payment of the amounts due on such installment; and

Second: - To the payment of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due (at the rate borne by the Bonds, to the extent permitted by law) and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the ratable payment of the amounts due on such date.

Third: - To the payment of any Bond Servicing Costs as the Trustee may be directed in writing by an authorized officer of the Authority.

(b) If the principal of all the Bonds shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority as between principal or interest, installments of interest or Bonds, ratably according to the amounts due respectively for principal and interest to the persons entitled thereto.

(c) If the principal on all Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded under the Indenture then, subject to paragraph (b) above in the event that the principal of all the Bonds shall later become or be declared due and payable, the moneys shall be applied in accordance with paragraph (a) above.

Whenever moneys are to be applied pursuant to the Indenture, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application, the likelihood of additional moneys becoming available for such application in the future, and potential expenses relating to the exercise of any remedy or right conferred on the Trustee by the Indenture. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue.

## **Waivers of Events of Default**

With the written consent of the holders of no less than 51% of the principal amount of Bonds then Outstanding, the Trustee may waive any Default or Event of Default under the Indenture and its consequences and rescind any declaration of maturity of principal provided there shall have been deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to the occurrence of such Event of Default and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal at the rate borne by the respective Bonds, and the reasonable fees and expenses of the Trustee, including the reasonable fees and expenses of its counsel, and any and all other Defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor or otherwise waived by such Bondholders. In case of any such waiver or rescission, the Authority, the Academy, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to or affect any subsequent or other Default or Event of Default, or impair any right consequent thereon.

## **Bondholders' Rights to Direct Trustee and Remedies**

If a Default occurs of which the Trustee is deemed to have notice, then the Trustee within 45 days after the occurrence thereof (unless such Default shall have been cured or waived) shall give notice of such Default to the Registered Owners of the Outstanding Bonds at the address then shown on the Bond Register. The holders of no less than 51% of the principal amount of Bonds then Outstanding may by written instrument filed with the Trustee (i) notify the Trustee, the Authority and the Academy of the existence of a Default or Event of Default, upon which notice the Trustee shall be conclusively presumed to have such notice, (ii) request the Trustee to give written notice of a Default to the Academy or give such notice themselves as provided in the Indenture, (iii) as to any Event of Default, request the Trustee to exercise any of the remedies under the Indenture, upon which request, subject to right of indemnification, the Trustee shall exercise such remedy, (iv) as to any Event of Default, direct the method and place of conducting all proceedings to be taken in connection with the exercise of any remedy, (v) request the waiver of any Event of Default and rescission of the declaration of maturity of principal or termination of any proceedings in connection with the exercise of any remedies; provided, however, that there shall be no such waiver, rescission or termination unless all arrears of principal and interest on the Bonds, together with interest thereon (to the extent permitted by law) at the applicable rate of interest borne by the Bonds and all fees and expenses of the Trustee, including the reasonable fees and expenses of its counsel, in connection with such Event of Default, shall have been paid or provided for, and (vi) request the Trustee to intervene in any judicial proceeding to which the Authority or the Academy is a party which may have substantial bearing on the interests of the holders of the Bonds, and subject to right of indemnification, the Trustee shall so intervene, subject to the approval of a court exercising jurisdiction.

In the event the holders of not less than 51% of the principal amount of Bonds then Outstanding shall direct the Trustee to exercise one or more applicable rights or remedies upon an Event of Default and shall reasonably indemnify the Trustee for all costs and expenses in the exercise of said rights and remedies as provided in the Indenture and the Trustee shall fail to take such designated action as directed within 30 days after receiving written notice of the same and being so indemnified, such Bondholders shall have the right to exercise any and all applicable rights and remedies in the same manner as if the same had been instituted by the Trustee.

Bondholders shall have the right to bring individual action only to enforce payment of the principal of and interest on the Bonds of the respective holders thereof at the respective due dates thereof, but only if the Trustee has not taken similar action.

## **Discharge of Lien**

Upon payment of the principal and interest on the Bonds (or if provision is made, in a manner satisfactory to the Trustee and Authority, to pay the principal, interest, and premium, if any, on the Bonds as the same become due through maturity or any earlier redemption for which proper notice may be given or waiver thereof obtained by the Trustee with cash or the proceeds of Government Obligations), performance by the Authority of all its obligations under the Indenture, and provision for any other material reasonably requested by the Trustee, the Security shall be released from the lien of the Indenture, the Indenture shall be discharged, and the Trustee shall deliver to the Authority or Academy any written instrument necessary to evidence such discharge and to the Academy any moneys in its possession in excess of the amounts to provide for payment of principal and interest on the Bonds and to pay any fees, costs or expenses of the Authority or the Trustee payable by the Academy pursuant to the Indenture. Any funds deposited with or paid to the Trustee pursuant to the Indenture for payment of principal of or interest on the Bonds and applied in accordance with the Indenture, but remaining unclaimed by the Bondholders for the period of time after which such funds are required to be escheated to the State of Michigan shall be escheated to the State of Michigan by the Trustee; and the Bondholder shall thereafter look only to the State for any payment which such Bondholder may be entitled to collect and may not look to the Trustee for such moneys.

## **Supplemental Indentures Not Requiring Consent of Bondholders**

The Authority and the Trustee may, without the consent of or notice to any of the Bondholders, enter into a supplemental indenture as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee, with its consent, for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to grant or pledge to the Trustee for the benefit of Bondholders any additional security;
- (d) to comply with the provisions of the Indenture pertaining to supplemental indentures in connection with the issuance of Additional Bonds;
- (e) to maintain the exclusion of interest on the Bonds from gross income for federal or State of Michigan income tax purposes;
- (f) to make any other changes which the Trustee and the Authority determine, in reliance on an opinion of Counsel, will not have a material adverse effect on Bondholders: or
- (g) to accomplish, implement, or give effect to any other action which is authorized or required by the Financing Agreement or the Indenture.

Within thirty (30) days after the acceptance of any supplemental indenture pursuant to this Section, the Academy or the Authority shall prepare and deliver to the Trustee, and the Trustee shall cause notice thereof to be mailed, postage prepaid, to the Academy and to all Registered holders at their addresses as they appear on the registration books. The notice shall briefly set forth the nature of the supplemental indenture and shall state that copies thereof are on file at the corporate trust office of the

Trustee for inspection by all Bondholders. A failure on the part of the Trustee to mail the notice required by this Section shall not affect the validity of such supplemental indenture.

Any supplemental indenture described above which affects any rights of the Academy shall not, while the Academy is not in default under the Financing Agreement, become effective unless and until the Academy shall have consented in writing to such supplemental indenture. The Trustee shall be provided a Favorable Opinion of Bond Counsel that in addition to such matters as are required by the definition of such term, opines that the amendment or supplement is authorized or permitted by the Bond Documents, and that all conditions precedent to the Trustee's execution and delivery of the amendment or supplement have been complied with.

### **Supplemental Indentures Requiring Consent of Bondholders**

Excluding supplemental indentures described in the above paragraph, and subject to the terms and provisions contained in this paragraph, and not otherwise, the holders of not less than fifty-one percent (51%) in aggregate principal amount of the then Outstanding Bonds shall have the right, from time to time, to consent to and approve the adoption by the Authority and the acceptance by the Trustee of such indentures supplemental hereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing herein contained shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of the funds and rights pledged under the Indenture other than the lien and pledge created by the Indenture, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture. Nothing herein contained, however, shall be construed as making necessary the approval by Bondholders of the execution of any supplemental indenture as authorized above under the heading "Supplemental Indentures Not Requiring Consent of Bondholders".

If at any time the Authority shall request the Trustee to accept any supplemental indenture for the purposes described in the preceding paragraph, the Academy or the Authority shall prepare and deliver to the Trustee, and the Trustee shall cause notice of the proposed acceptance of such supplemental indenture to be mailed, postage prepaid, to the Academy and all Registered Owners at their addresses as they appear on the registration books. The notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated office of the Trustee for inspection by all Bondholders. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail the notice required by the Indenture, and any such failure shall not effect the validity of such supplemental indenture when consented to and approved as provided in the Indenture.

Whenever, at any time within one year after the date of such notice, the Authority shall deliver to the Trustee an instrument or instruments in writing purporting to be executed by the holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds Outstanding, which instrument or instruments shall refer to the proposed supplemental indenture described in such notice and shall specifically consent to and approve the acceptance thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Trustee may accept such supplemental indenture in substantially such form, without liability or responsibility to any holder of any Bond, whether or not such holder shall have consented thereto.

If the holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds Outstanding at the time of the acceptance of such supplemental indenture shall have consented to and approved the acceptance thereof as herein provided, no holder of any Bond shall have any right to object to the acceptance of said supplemental indenture or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the priority of the acceptance thereof, or to enjoin or restrain the Trustee from accepting or the Authority from adopting the same or from taking any action pursuant to the provisions thereof.

Upon the adoption and acceptance of any supplemental indenture pursuant to the provisions of the Indenture, the Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

Any supplemental indenture described above which affects any rights of the Academy shall not, while the Academy is not in Default under the Agreement, become effective unless and until the Academy shall have consented in writing to the adoption of such supplemental indenture. The Trustee shall be provided a Favorable Opinion of Bond Counsel that in addition to such matters as are required by the definition of such term, opines that the amendment or supplement is authorized or permitted by the Bond Documents, and that all conditions precedent to the Trustee's execution and delivery of the amendment or supplement have been complied with.

### **Periodic Academy Filings**

The Trustee shall maintain a file (which may be in electronic form) of the Academy's quarterly filings of its unaudited financial and budget reports and its end-of-year reports on the operations of the Academy during its just completed fiscal year, each to the extent made with the Trustee as required by the Financing Agreement.

The Trustee shall maintain a file of any written requests for a copy of such reports, received by the Trustee from any Beneficial Owner of any Series 2006 Bond, which requests each must contain the Beneficial Owner's express representation and request to substantially this effect:

1. The undersigned represents to the Trustee, the Authority and the Academy that the undersigned currently owns \$\_\_\_\_\_ aggregate principal amount of Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds (Michigan Technical Academy Project), Series 2006 which the undersigned purchased from \_\_\_\_\_.
2. This is a continuing request to the Trustee to provide to the undersigned, at the address set forth below or such other address as we hereafter in writing tell the Trustee, a copy of each unaudited financial and budget report, end-of-year report and certificate of compliance with its Debt Service Coverage Ratio covenant, of Michigan Technical Academy filed with the Trustee within the preceding 92 days and hereafter, until the undersigned in writing terminates this request or none of the Bonds is any longer outstanding.

Address of the undersigned: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

b. The Trustee shall honor each written request that it receives, as described in subsection (b) above, in accordance with its terms.

Nothing in the Indenture imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Academy in response to any such written request, or to examine any such report received from the Academy, or to provide a copy of any such report to anyone who has not made a request therefor in the form prescribed above.

### **Requests to the Academy**

The Trustee agrees that for as long as the Financing Agreement is in effect, if anyone who represents that it is a beneficial owner of a Series 2006 Bond by delivering to the Trustee a signed statement substantially to the effect of paragraph (1) above (a “Requesting Bondholder”) requests the Trustee to request from the Academy, for and on behalf of such beneficial owner, access to information and the opportunity to ask questions and receive answers concerning the legal status, financial condition, student count and any other relevant matters which the Requesting Bondholder in its discretion determines is necessary regarding the Academy, the Trustee accordingly will make such request to the Academy. The Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Academy in response to such request.

Nothing in the Indenture imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Academy in response to any such written request, or to examine anything received from the Academy, or to provide a copy of any such information or material to anyone other than a Requesting Bondholder.

### **Requests to Authorizing Body**

The current authorizing body of the Academy is the Central Michigan University Board of Trustees (which, or any subsequent authorizing body of the Academy, is below called the “Authorizing Body”). The Trustee agrees that for as long as the Financing Agreement is in effect:

(1) if pursuant to the Indenture the Trustee has, on behalf of a Requesting Bondholder, requested but been unable to receive such information from the Academy, then if the Requesting Bondholder further asks the Trustee to request such information from the Authorizing Body, the Trustee accordingly will make such request to the Authorizing Body; and the Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Authorizing Body in response to such request; and

(2) if a Requesting Bondholder asks the Trustee to request any of the below- listed information from the Authorizing Body, the Trustee accordingly will make such request to the Authorizing Body; and the Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Authorizing Body in response to such request:

(A) Quarterly or annual financial statements of the Academy;

(B) The initiation of proceedings by the Authorizing Body, including the issuance of notice to show compliance, to revoke or suspend the Academy’s charter;

(C) Written notice received from the Academy regarding voluntary election to terminate its contract;

(D) Enrollment data; and



(E) Other monetary obligations of the Academy for which any of its state school aid payments are pledged.

Nothing in the Indenture imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Authorizing Body in response to any written request it receives from a Requesting Bondholder, or to examine anything received from the Authorizing Body, or to provide a copy of any such information or material to anyone other than a Requesting Bondholder.

## **THE FINANCING AGREEMENT**

### **Sale, Purchase and Assignment**

The Financing Agreement pertains to the Academy's purchase of the Project, constituting the Site and certain equipment and furnishings, from the Company. In the Financing Agreement, (i) the Academy agrees to purchase the Project from the Company and to pay monthly Installment Payments at specified dates in specified amounts, as well as Additional Payments and Reserve Fund Payments; (ii) the Company irrevocably assigns to the Authority the Installment Payments, Additional Payments and Reserve Fund Payments and in consideration thereof the Authority directs the Trustee to pay to the Company amounts on deposit in the Proceeds Fund as required to satisfy the Academy's obligations to the Company in connection with the acquisition of the Project; and (iii) the Authority, as assignee of the Installment Payments from the Company, agrees to pay to the Academy the full amounts of the purchase price by depositing the same with the Trustee for application in accordance with the Indenture.

### **Payment Provisions**

The Academy agrees to pay to the Authority the Installment Payments and Additional Payments at specified dates in specified amounts. The Academy may only prepay Installment Payments with the approval of the Authority, which may require the Academy to pay a prepayment premium as a condition of prepayment. The Academy additionally agrees that if any withdrawal is made from the Reserve Fund to cure any deficiency in the Bond Fund or if on any Bond Payment Date the value of the Reserve Fund is less than the Reserve Fund Requirement, the Academy shall pay to the Trustee Reserve Fund Payments for deposit into the Reserve Fund on the dates and in the amounts as described herein under the heading "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—The Reserve Fund" in the forepart of this Official Statement.

The Academy shall make all payments due under the Financing Agreement at the designated office of the Trustee. The Academy further agrees to deposit with the Trustee all payments due in immediately available funds.

### **Payment General Obligation**

The obligation of the Academy to pay Installment Payments, Additional Payments, Reserve Fund Payments and all other payments under the Financing Agreement is a general obligation of the Academy. The Academy agrees to include in its budget and pay each year, until the Financing Agreement is paid in full, such sums as necessary each year to make payments of the Installment Payments, Additional Payments, Reserve Fund Payments and all other payments under the Financing Agreement or under the Mortgage.

## **State Aid Pledge**

The Academy pledges to pay its Installment Payments, Additional Payments, Reserve Fund Payments and all other amounts required by the Financing Agreement from its State School Aid to be allocated to it and payable to its Authorizing Body. Unless otherwise agreed in writing by the Authority, 97% of each installment of State School Aid (such monies to be used to pay the Installment Payments, Reserve Fund Payments and, with prior written notice to the Academy if required by the Financing Agreement, Additional Payments when due) shall, pursuant to the agreement of the Authorizing Body, be transmitted directly by the State Treasurer to the Trustee commencing on or before March 20, 2006, and thereafter on or before the 20th of each April, May, June, July, August, October, November, December, January, February and March (each a "Payment Date"); provided, however, that if the School Aid Act or other applicable law shall be modified to provide for a schedule of school aid payments materially different from that now in effect, the Authority by written notice to the Trustee, the State Treasurer, the Academy and the Authorizing Body may designate different payment dates or amounts to provide for timely receipt of Installment Payments, Additional Payments and Reserve Fund Payments consistent with such revised school aid payment schedule which shall thereupon be and become the "Payment Dates" under the Financing Agreement. If the Payment Date falls on a Saturday, Sunday, or legal holiday, the Installment Payment shall be due on the immediately preceding business day. The Installment Payments, Additional Payments and Reserve Fund Payments, if any, to the Authority shall be made first from the State School Aid allocated to the Academy during the month of the payment. If, for any reason, the State School Aid allocated to the Academy during the month of the payment is insufficient to pay the Installment Payment, Additional Payment and Reserve Fund Payment, if any, then in that event the Academy covenants and agrees to use any and all other available funds to meet the Installment Payment, Additional Payment and Reserve Fund Payment, if any, obligation. If on any due date for any Installment Payment, Additional Payment or Reserve Fund Payment the funds with the Trustee are insufficient to pay the Installment Payment, Additional Payment or Reserve Fund Payment then due, the Academy, pursuant to Section 17a(3) of the School Aid Act, to the extent necessary to meet the payment obligation, assigns to the Authority and authorizes and directs the State Treasurer to intercept and/or advance not to exceed 97% of any state school aid payment to be made to or for the Academy which is dedicated for distribution or for which the appropriation authorizing such payment has been made under the School Aid Act; and in such event pursuant to Section 17a(3) of the School Aid Act, the Authority is authorized, pursuant to the agreement of the Authorizing Body, to intercept and/or seek an advancement of 97% of the State School Aid to be allocated or distributed to the Authorizing Body with respect to the Academy. In such event, the Trustee, on behalf of the Authority, shall promptly notify (or cause notice to be given to) the Academy and the Authorizing Body that it will immediately commence to intercept and/or receive an advancement of the State School Aid, and beginning immediately the Authority shall intercept 97% of the State School Aid to be distributed to the Authorizing Body with respect to the Academy. Notwithstanding the foregoing, however, the amount to be applied by the Trustee to Installment Payments, Reserve Fund Payments and Additional Payments under the Financing Agreement in any fiscal year of the Academy shall not exceed 20% of the amount of State School Aid payable to the Academy by the State for such fiscal year.

The intercepted and/or advanced amount shall be applied on the following priority basis: (1) the amount required to pay the Installment Payment and Reserve Fund Payment, if any, when due shall be held and applied by the Trustee for such purpose, (ii) the amount required to pay the Additional Payment, if any, when due shall be held and applied by the Trustee for that purpose, and (iii) to the extent in excess of the amount required to make payment in full of the Installment Payment, Additional Payment and Reserve Fund Payment, if any, then due, any amounts remaining to be immediately distributed to the Authorizing Body or as otherwise directed by the Authority. The process set forth above shall continue until sufficient funds are deposited with the Trustee to pay all Installment Payments, Additional Payments and Reserve Fund Payments. Section 17a(3) of the State School Aid Act does not require the State to

make an appropriation to any authorizing body, public school academy, other school district or intermediate school district and shall not be construed as creating an indebtedness of the State.

The above-described pledge of State Aid is subject to the reservation by the Academy of the right to make additional pledges of State Aid to secure other obligations as provided in the Financing Agreement. (See "LIMITATION ON ADDITIONAL INDEBTEDNESS" in the forepart of this Official Statement.)

### **Assignment by Authority**

The Academy and the Company each consent to any assignments at any time made by the Authority of the Authority's rights under the Financing Agreement and acknowledge that no further action or consent by the Academy or the Company is necessary to effectuate such an assignment.

### **Obligations of Academy Unconditional**

The obligation of the Academy to pay the Installment Payments, Additional Payments, Reserve Fund Payments and all other amounts required by the Financing Agreement to be paid by the Academy shall be an absolute and unconditional general obligation of the Academy and shall not be subject to diminution by set-off, recoupment, counterclaim, abatement or otherwise. Until the Series 2006 Bonds have been fully paid (or provision made therefor) in accordance with the Indenture, the Academy (i) shall not suspend or discontinue any Installment Payments, Additional Payments or Reserve Fund Payments, (ii) shall perform and observe all of its other obligations contained in the Financing Agreement and (iii) shall not terminate the Financing Agreement for any cause, including, without limiting the generality of the foregoing, defect in title to the Site or the Project, failure to complete the Project, any acts or circumstances that may constitute failure of consideration, destruction of, damage to or condemnation of any part of the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Michigan or any political subdivision of either, or any failure of the Authority to perform and observe any of its obligations arising out of or connected with the Financing Agreement. The Installment Payments are intended to be sufficient for the payment in full of the Series 2006 Bonds, including (i) the total interest to become due and payable on the Series 2006 Bonds to the dates of payment thereof, (ii) the total principal amount of the Series 2006 Bonds, (iii) the redemption premiums, if any, that shall be payable on the redemption of the Series 2006 Bonds prior to their stated payments dates, and (iv) all additional interest, additional principal and any other amounts payable to the Trustee as and when required by the Series 2006 Bonds or the Financing Agreement. In the event, however, of any deficiency in the payment of such amounts regardless of the reason for such deficiency, the Academy agrees that upon notice of the deficiency from the Trustee or the Authority it shall then immediately pay the amount of the deficiency to the Trustee on behalf of the Authority. These obligations of the Academy shall survive the termination of the Financing Agreement.

### **Taxes and Other Costs**

The Academy shall promptly pay when due all lawful taxes and governmental charges of any kind whatsoever, including income, profits, receipts, business, property and excise taxes, with respect to any estate, interest, documentation or transfer in or of the Site and the Project, the Financing Agreement or any payments with respect to the foregoing, the costs of all building and other permits to be procured, and all utility and other charges and costs incurred in the operation, maintenance, use, occupancy and upkeep of the Site and the Project.

## **Insurance**

The Academy shall continuously insure, or cause to be insured, against such risks and in such amounts with respect to the Project and the Site as are generally insured against by businesses of like size and character, including at least, but not limited to:

(a) All risk property insurance to the extent of the full insurable value of the Project and the Site (recognizing that certain portions thereof may not be exposed to certain risks) including without limitation coverage for loss or damage by fire, with standard extended coverage, vandalism and malicious mischief endorsements.

(b) Public liability insurance with reference to the Project with limits of not less than \$1,000,000 for bodily injury or death per occurrence and \$1,000,000 for property damage per occurrence and with aggregate combined limits of not less than \$2,000,000.

(c) Workers' compensation insurance, if required under Michigan law, or a program of self-insurance complying with the requirements of Michigan law.

(d) Builder's all risk insurance during the course of the construction of the Project and during the course of any other construction, renovation or similar undertaking with respect to property covered by the Mortgage.

(e) Business interruption insurance covering actual loss in operating revenues in an amount not less than \$1,000,000.

All required insurance policies shall be with qualified insurance companies under Michigan law and may be written with exceptions and exclusions comparable to those in similar policies carried by other businesses engaged in public education and located in the State of Michigan. Hazard and public liability insurance policies shall name the Authority and the Trustee as additional insureds as their interests may appear, and the Trustee shall also be named as mortgagee and loss-payee. All insurance claims may be adjusted by the Academy only, subject to the written approval of the Trustee, which approval shall not be unreasonably withheld, and all insurance proceeds for loss or damage to the Project shall be payable to the Trustee for deposit in the Bond Fund or the Proceeds Fund in accordance with the provisions of the Indenture. The Academy shall provide the Authority and the Trustee with certificates of the respective insurers specifying that the required insurance is in force and effect and shall not expire or be canceled or materially modified except upon thirty (30) days' prior written notice to the Academy, the Authority and the Trustee. All insurance claims may be adjusted by the Academy only, and all insurance proceeds for loss or damage to the Project shall be payable to the Trustee for deposit in the Bond Fund or the Proceeds Fund in accordance with the provisions of the Financing Agreement. Prior to the Closing Date and annually thereafter, the Academy shall provide the Authority and the Trustee with certificates of the respective insurers specifying that the required insurance is in force and effect and shall not expire or be canceled or materially modified except upon thirty (30) days' prior written notice to the Academy, the Authority and the Trustee.

## **Application of Insurance and Condemnation Proceeds**

In the event (i) the Project is damaged or destroyed, or (ii) failure of title to all or part of the Project occurs or title to or temporary use of the Project is taken by condemnation or by the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, the Academy shall promptly give written notice thereof to the Authority and the Trustee. As soon as practicable, but not later than 60 days after such damage or condemnation, the Academy shall

elect in writing whether to restore all or part of the Project or to prepay the Financing Agreement. The Academy may only restore all or part of the Project if it demonstrates to the Trustee that (i) it has sufficient money available to it (including insurance proceeds) to undertake such restoration, and (ii) such restoration will not cause interest on the Series 2006 Bonds which would otherwise be excludable from gross income for federal income tax purposes to be included in gross income for federal income tax purposes. If the Academy chooses to restore all or part of the Project, the Trustee shall deposit the proceeds of such condemnation or insurance in the Proceeds Fund, which shall be reactivated and drawn down in the same manner as provided for the Proceeds Fund in the Financing Agreement. If the Academy shall elect to restore the Project, it shall proceed to do so with reasonable dispatch. If the Project shall have been so damaged or destroyed, or if failure of title or condemnation or taking of such part thereof shall have been taken so that the Project may not be reasonably restored within a period of 12 consecutive months (or such longer period of time as is acceptable to the Trustee) to its condition immediately preceding such damage or destruction or failure of title, or if the Academy is thereby prevented from carrying on its normal operations for a period of 12 consecutive months (or such longer period of time as is acceptable to the Trustee), or if the cost of restoring the Project is reasonably deemed by the Academy to be uneconomic and the Academy abandons the Project, then all proceeds of such insurance or condemnation shall be transferred to the Bond Fund and used for payment or redemption of the Series 2006 Bonds.

### **Reports and Access to Projects**

The Academy shall promptly file with the Authority and the Trustee its audited financial statements for each fiscal year, not later than 120 days after the fiscal year end and a certificate of an Authorized Academy Representative stating whether or not, to the knowledge of such person, a Default or Event of Default has occurred and continues, or if a Default or Event of Default has occurred and continues, describing such Default or Event of Default in reasonable detail. Subject to reasonable security and safety regulations, the Authority and the Trustee and their respective authorized agents shall have the right at all reasonable times to enter the Site and examine and inspect the Project.

### **Disposition of Assets**

During the term of the Financing Agreement, and except as otherwise provided by below under the heading "Academy to Maintain Existence", the Academy shall maintain its existence and shall not dissolve or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another entity or permit one or more entities to consolidate with or merge into it without the prior written consent of the Authority.

### **Covenant as to Non-Impairment of Tax-Exempt Status**

Notwithstanding any other provision or any rights of the Academy under the Financing Agreement, the Academy covenants that, to the extent permitted by law, it shall take all actions within its control and that it shall not fail to take any action as may be necessary to maintain the exclusion of the interest on the Series 2006 Bonds from gross income for federal income tax purposes, on behalf of itself and the Authority, including but not limited to, actions relating to the rebate of arbitrage earnings and the expenditure and investment of Series 2006 Bond proceeds and moneys deemed to be Series 2006 Bond proceeds, all as more fully set forth in the Nonarbitrage Certificate.

### **Academy to Maintain Existence**

The Academy covenants and agrees that for so long any Series 2006 Bond remains outstanding under the Indenture, it shall maintain its existence as a "public school academy" under Michigan law and

shall continue to operate its facilities located at the Site as a public school which will produce sufficient available revenues to pay the Installment Payments, Reserve Fund Payments and Additional Payments and all other amounts due and owing by the Academy under the Financing Agreement, the Mortgage, the Management Agreement and any other Bond Documents. Notwithstanding the foregoing, the Academy shall have the right to cease operations at the Site and obtain from the Trustee a release and discharge of the Mortgage with respect thereto upon (a) prepayment in full of the Installment Payments, Additional Payments and Reserve Fund Payments and any prepayment premium required by the Authority as determined in the sole discretion of the Authority and (b) filing a Favorable Opinion of Bond Counsel with respect to such prepayment and release.

## **Leasing**

The Academy is purchasing the Project subject to the Judson Lease. Judson Center may continue to lease and occupy a 9,965 sq. ft. portion of the building located on the Site through a lease term which expires not later than June 30, 2012 (the "Judson Lease Expiry Date"). The Academy shall not (i) extend the term of the Judson Lease or permit Judson Center, Inc. to occupy the Project beyond the Judson Lease Expiry Date or (ii) lease any portion of the Project to any other entity, unless prior to entering into or extending such lease the Academy delivers to the Authority and the Trustee a Favorable Opinion of Bond Counsel with respect to such lease. No leasing shall relieve the Academy from primary liability for any of its obligations under the Financing Agreement, and in the event of any such leasing the Academy shall continue to remain primarily liable for the payment of Installment Payments, Additional Payments and Reserve Fund Payments and for performance and observance of the other agreements herein on its part to be performed and observed.

## **Maintenance, Repair and Modification**

The Academy shall cause the Project to be used for the purposes described in the Financing Agreement throughout the term of the Financing Agreement. The Academy does not know of any reason why the Project will not be used and occupied by it in the absence of supervening circumstances not now anticipated by it or beyond its control. The failure of the Academy to use the Project for its intended purposes shall not in any way abate or reduce the obligation of the Academy to pay the Installment Payments, the Reserve Fund Payments and the Additional Payments under the provisions of the Financing Agreement.

The Academy agrees that it will keep the Project in good repair and good operating condition, ordinary wear and tear expected, at its own cost.

The Academy may remodel the Project or make additions, modifications and improvements to the Project from time to time as the Academy, in its discretion, may deem to be desirable, the cost of which shall be paid by the Academy; provided, however, that such additions, modifications and improvements (i) do not impair the exclusion of interest on the Bonds from gross income for federal income tax purposes and (ii) do not contravene the provisions of the Enabling Legislation.

## **Events of Default**

Any one or more of the following events is an Event of Default under the Financing Agreement:

(a) Failure by the Academy to make an Installment Payment, Reserve Fund Payment or Additional Payment hereunder when due and such failure shall continue for (i) three (3) business days after notice given by the Trustee that such payment has not been received if such nonpayment results in

an event of default under the Indenture, or (ii) thirty (30) days after notice given by the Trustee that such payment has not been received in all other circumstances.

(b) Failure by the Academy to observe and perform any other obligation in the Agreement on its part to be observed or performed for a period of forty-five (45) days after written notice specifying such failure and requesting that it be remedied, given to the Academy by the Authority or the Trustee; provided, however, that if said Default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if the Default, in the opinion of the Trustee, is correctable and will not have a material adverse effect on the Bondholders or any of the security for the Series 2006 Bonds and if corrective action is instituted within such period and diligently pursued until the Default is corrected.

(c) The dissolution or termination of the Academy or failure by the Academy promptly to lift any execution, garnishment or attachment of such consequences as will materially impair its ability to carry out its obligations under the Financing Agreement or the Academy becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors or consents to the appointment of a trustee or receiver for the Academy or for the greater part of its properties; or a trustee or receiver is appointed for the Academy or for the greater part of its properties without its consent and is not discharged within 40 days; or bankruptcy, reorganization or liquidation proceedings are commenced by or against the Academy, and if commenced against the Academy are consented to by it or remain undismissed for 40 days; or an order for relief is entered in any bankruptcy proceeding.

(d) If any representation or warranty made by the Academy in the Financing Agreement or any other document delivered by the Academy to the purchaser(s) of the Series 2006 Bonds, the Trustee or the Authority in connection with the issuance, sale and delivery of the Series 2006 Bonds is false or misleading in any material respect.

(e) If the Academy shall default under any other agreement for payment of money and such default shall not be cured within any period of grace provided in such agreement, if any, or if the Academy shall assign or convey or attempt to assign or convey any of its rights or obligations under the Financing Agreement except as shall be permitted thereunder, provided, however, that the Academy shall not be in default if it is contesting in good faith any default under any such other agreement for the payment of money, unless in the estimation of the Trustee the security of the Authority under the Financing Agreement is materially endangered.

(f) The occurrence of an event or condition which constitutes an "event of default" under the Indenture, the Mortgage or the Security Agreement or a default under the State Aid Agreement.

(g) The loss by the Academy of its charter.

The Defaults described in subsection (b) above only, are also subject to the following limitation: If the Academy by reason of force majeure is unable to carry out or observe the obligations described in said subsection (b), the Academy shall not be deemed to be in breach or violation of the Financing Agreement or in default during the continuance of such inability. The term "force majeure" as used herein shall include, without limitation, acts of God, strikes, lockouts or other disturbances; acts of public enemies; inability to comply with or to cause compliance with laws, ordinances, orders, rules, regulations or requirements of any public authority or the government of the United States of America or the State of Michigan or any of their departments, agencies, or officials, or any civil or military authority; inability to procure or cause the procurement of building permits, other permits, licenses or other authorizations required for the construction, use, occupation, operation or management of the Project; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident

to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event other than financial inability not reasonably within control of the Academy. The Academy agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Academy from carrying out its agreements; provided, however, that the settlement of strikes, lockouts and other disturbances shall be entirely within the discretion of the Academy, and the Academy shall not be required to make settlement of strikes, lockouts and other disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Academy not in the best interests of the Academy.

### **Remedies upon an Event of Default**

Whenever any Event of Default shall have occurred and be continuing, the Authority or the Trustee may take any one or more of the following remedial steps:

(a) Declare all indebtedness under the Financing Agreement (i.e. Installment Payments, Reserve Fund Payments, Additional Payments and all other payments required by the Financing Agreement) to be immediately due and payable, whereupon the payment date for the same shall become immediately accelerated and all such indebtedness shall become immediately due and payable;

(b) Have access to and inspect, examine and make copies of the books and records and any and all accounts, data and income tax and other tax returns of the Academy only, however, insofar as they relate to the Project, the Site or the Event of Default and remedying thereof;

(c) Exercise and enforce all or any of its rights under the security interests granted in the Financing Agreement, the Collateral Documents or any other collateral provided by the Academy to secure its obligations hereunder; and/or

(d) Petition a court of competent jurisdiction for the appointment of a receiver to take possession of and manage and operate all or any part of the assets of the Academy for the benefit of the Authority and the Trustee.

No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy now or hereafter existing at law or in equity or by statute.

Any amounts collected pursuant to action taken under the foregoing remedies shall be paid into the Bond Fund and applied in accordance with the Indenture, except amounts collected for the benefit of the Authority to pay certain fee payments owing to the Authority under the Financing Agreement which shall be paid to or retained by the Authority.

### **Non-Liability of Authorizing Body**

The Authorizing Body has not agreed to assume, undertake or in any way guarantee payment of the Academy's obligations from any source of revenue available to the Authorizing Body, including the administrative fee deducted by the Authorizing Body from the state school aid payments received by the Authorizing Body for the Academy.

### **Academy Bound by Indenture**

The Academy agrees to be bound by the terms of the Indenture applicable to it, and agrees not to take any action which would cause the Authority or the Trustee to violate the terms of the Indenture.



**No Personal Liability of the Officers or Directors of the Academy.**

No officer or director of the Academy shall have any personal liability for the Academy's indebtedness, obligations and liabilities under the Financing Agreement, provided that this limitation on liability shall not release any officer or director of the Academy from any personal liability for his or her own fraudulent actions or omissions.

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## **Exhibit E**

### **FORM OF OPINION OF BOND COUNSEL**

[Opinion of Dickinson Wright PLLC]

Michigan Public Educational Facilities Authority  
Richard H. Austin State Office Building  
Lansing, Michigan 48909

We have acted as bond counsel to the Michigan Public Educational Facilities Authority (the "Authority"), in connection with the issuance by the Authority of its Limited Obligation Revenue Bonds (Michigan Technical Academy Project) Series 2006 in the aggregate principal amount of \$6,950,000 (the "Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are authorized to be issued by Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended (the "Enabling Legislation"), a bond authorizing resolution adopted by the Authority on January 31, 2006 (the "Bond Resolution") and a Trust Indenture dated as of February 1, 2006 (the "Indenture") between the Authority and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee") for the purpose of providing funds which will be used to (i) purchase the obligation (the "Municipal Obligation") of Michigan Technical Academy, a public school academy organized under the laws of the State of Michigan (the "Academy"), evidenced by an Installment Purchase Financing Agreement dated as of February 1, 2006 (the "Financing Agreement") among the Academy, the Authority and Acme Properties Group, LLC ("Acme"), (ii) make a deposit to a reserve fund for the Bonds, (iii) pay capitalized interest on the Bonds, and (iv) pay costs of issuance of the Bonds. The Academy will use the proceeds of the Bonds to acquire and equip certain public school academy facilities.

Under the Financing Agreement, the Academy has agreed to make installment payments to be used to pay when due the principal of, premium (if any) and interest on the Bonds. Such installment payments and other payments and revenues under the Financing Agreement (collectively, the "Security") and the rights of the Authority under the Financing Agreement (except certain rights to indemnification, reimbursement and administrative fees) are pledged and assigned by the Authority to the Trustee as security for the Bonds pursuant to the Indenture. The Bonds are payable solely from the Security.

As additional security for the Bonds, the Academy will execute and deliver an assumption of mortgage and a security agreement (collectively the "Mortgage") in favor of the Trustee whereby the assets financed with the proceeds of the Bonds will be pledged to the Trustee to secure the Academy's obligations under the Financing Agreement. We note that various issues concerning the enforceability of the Mortgage are addressed in the opinion of Dickinson Wright PLLC, counsel to the Academy, provided to you, and we express no opinion herein as to the validity or enforceability of the Mortgage or any of the liens created thereby.

With respect to the valid existence of the Academy as a Michigan public school academy, the power of the Academy to enter into and perform its obligations under the Financing

Agreement and other documents to which it is a party, the due authorization, execution and delivery of the Financing Agreement and the other documents to which the Academy is a party and the validity and enforceability of them against the Academy, we refer you to the opinion of Dickinson Wright PLLC, counsel to the Academy, dated the date of this letter and addressed to you.

We have assumed the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture, and the Academy and Acme of the Financing Agreement.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Academy contained in the Financing Agreement and the Indenture, the certified proceedings and other certifications of public officials and others furnished to us, including a nonarbitrage and tax compliance certificate of the Authority and the Academy and certifications furnished to us by or on behalf of the Authority and the Academy, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Authority is a public body corporate and politic validly existing under the laws of the State of Michigan with the power to enter into and perform its obligations under the Indenture and the Financing Agreement and to issue the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable upon the Issuer in accordance with its terms. The Indenture creates a valid lien on the Security and on the rights of the Issuer under the Financing Agreement (except certain rights to indemnification, reimbursement and administrative fees).

3. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and legally binding limited obligations of the Issuer, payable solely from the Security.

4. The interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, it should be noted that certain corporations must take into account interest on the Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax imposed on such corporations. This opinion is subject to the condition that the Authority and the Academy comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Academy, on behalf of itself and the Authority, has covenanted to comply with all such requirements to the extent permitted by law. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

5. The Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion regarding (i) the accuracy, adequacy or completeness of any disclosure document relating to the Bonds or (ii) the perfection or priority of the lien on the Security or other funds created by the Indenture. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than an expressly set forth herein.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

## **Exhibit F**

### **FORM OF OPINION OF THE ATTORNEY GENERAL**

[FORM OF APPROVING OPINION OF THE  
ATTORNEY GENERAL OF THE STATE OF MICHIGAN]

February \_\_\_, 2006

Michigan Public Educational Facilities Authority  
Richard H. Austin State Office Building  
Lansing, Michigan 48909

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the Michigan Public Educational Facilities Authority (the "Authority") of bonds designated MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY LIMITED OBLIGATION REVENUE BONDS (MICHIGAN TECHNICAL ACADEMY PROJECT) SERIES 2006 in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds"):

(1) Executive Order 2002-3, the Shared Credit Rating Act, 1985 PA 227, as amended, and the Michigan Strategic Fund Act, 1984 PA 270, as amended, (the "Enabling Legislation") which collectively, created the Authority and empowered it to issue revenue bonds;

(2) a certified copy of the resolution adopted by the Authority on January 31, 2006 authorizing the issuance of the Bonds (the "Resolution");

(3) an executed counterpart of the trust indenture dated as of February 1, 2006 (the "Indenture"), entered into between the Authority and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee");

(4) an executed counterpart of the installment purchase financing agreement dated as of February 1, 2006 (the "Financing Agreement") entered into among the Authority, ACME Properties Group, LLC and Michigan Technical Academy, a Michigan public school academy (the "Academy");

(5) a Nonarbitrage Certificate of the Authority; and

(6) one Bond, as executed, or a specimen thereof.

The Bonds are being issued for the purpose of providing funds which will be used to (i) purchase the obligation (the "Municipal Obligation") of the Academy as set forth in the Indenture and the Financing Agreement (ii) make a deposit to the reserve fund for the Bonds, (iii) pay capitalized interest on the Bonds, (iv) pay working capital expenses, other than costs of issuance and capitalized interest, that do not exceed five percent of the sale proceeds of the Bonds and that are directly related to capital expenditures financed by the Bonds, and (iv) pay costs of issuance of the Bonds. The Academy will use the proceeds of the Bonds to acquire and



equip certain public school academies in the cities of Detroit and Redford, Wayne County, Michigan.

By the terms of the Financing Agreement, the Academy has contracted to make repayments at times and in amounts sufficient to enable the Authority to pay the principal of, premium, if any, and interest on the Bonds. Pursuant to the Indenture, the repayments to the Authority from the Academy and certain rights of the Authority (to the extent specified in the Indenture) have been assigned by the Authority to the Trustee as security for the Bonds.

The Academy will execute and deliver an assumption of mortgage and a security agreement (collectively, the "Mortgage") in favor of the Trustee as additional security for the Bonds.

In rendering this opinion, I have relied upon the opinion, dated today, of Dickinson Wright PLLC, counsel for the Academy, to the effect that the Financing Agreement and Mortgage are valid and binding obligations of the Academy and as to other matters set forth in the opinion. I express no opinion as to the validity or enforceability of the Financing Agreement, Mortgage, or any liens created thereby. I have assumed the due authorization, execution, and delivery by, and the binding effect upon and the enforceability against, the Trustee of the Indenture. I have also assumed the accuracy of and relied upon the information and representations contained in the Financing Agreement and the certificates of the Academy (including specifically the representation that the Academy is a public school academy under Michigan law and the representation and covenant by the Academy that it will comply with Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") and I have made no independent investigation of the accuracy of the information and representations contained therein.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Authority is a public body corporate and politic of the State duly organized and validly existing under the Constitution and the laws of the State, including particularly the Enabling Legislation.

2. The Authority has the power under the laws of the State to adopt the Resolution. The Resolution has been duly adopted by the Authority, is in full force and effect in the form adopted, and is the valid and binding action of the Authority. The Indenture has been duly authorized, executed, and delivered by the Authority and constitutes a valid and binding agreement of the Authority enforceable in accordance with its terms.

3. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly authenticated, will constitute valid and binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and interest thereon solely from the security pledged therefor under the Indenture (which security includes the Municipal Obligation) or otherwise provided by the Academy.

4. The Bonds are limited obligations of the Authority. The Bonds, including the interest thereon, are not general obligations of the Authority and do not constitute obligations, debts, or liabilities of the State and do not constitute a charge against the general credit of the Authority or a charge against the credit or taxing power of the State. The Authority has no taxing power.

5. Interest on the Bonds (i) is excluded from gross income for federal income tax purposes, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the Academy and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be, or continue to be, excluded from gross income for federal income tax purposes. The Academy has covenanted for itself and on behalf of the Authority to comply with each such requirement. Failure to comply with certain of those requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. I express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds, the Indenture, and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors' rights that have been or in the future will be enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion including the application of general principles of equity.

I express no opinion on the investment quality of the Bonds or whether the facts, figures, or financial information or other statements made respecting the Academy contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make those statements, in the light of the circumstances under which they were made, not misleading.

Sincerely yours,

MIKE COX  
Attorney General

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Assistant Attorney General

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Assistant Attorney General

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## **Exhibit G**

### **FORM OF CONTINUING DISCLOSURE AGREEMENT**

**CONTINUING DISCLOSURE AGREEMENT**  
**\$ \_\_\_\_\_**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(MICHIGAN TECHNICAL ACADEMY PROJECT), SERIES 2006**

This Continuing Disclosure Agreement (the “Agreement”) is executed by and between Michigan Technical Academy, County of Wayne, State of Michigan (the “Academy”) and J.P. Morgan Trust Company, National Association (the “Dissemination Agent”) in connection with the issuance by the Michigan Public Educational Facilities Authority (the “Issuer”) of its Limited Obligation Revenue Bonds (Michigan Technical Academy Project), Series 2006. The Bonds are being issued pursuant to a Trust Indenture dated as of February 1, 2006 (the “Bonds”), between the Issuer and J.P. Morgan Trust Company, National Association, as Trustee (the “Trustee”), as supplemented and amended from time to time (the “Indenture”) and a resolution adopted by the Issuer on January 31, 2006, authorizing the issuance, sale and delivery of the Bonds (the “Resolution”). The Academy and the Trustee covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Agreement is being executed and delivered by the Academy for the benefit of the Bondholders and in order to assist the Participating Underwriters in complying with the Rule. The Academy acknowledges that this Agreement does not address the scope of any application of Rule 10b-5, promulgated by the SEC pursuant to the 1934 Act, to the Annual Reports or notices of the Listed Events provided or required to be provided by the Academy pursuant to this Agreement.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

(a) “Annual Report” shall mean any annual report provided by the Academy pursuant to, and as described in, Sections 3 and 4 of this Agreement.

(b) “Bondholder” means the registered owner of a Bond or any person which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries), or (ii) is treated as the owner of any Bond for federal income tax purposes.

(c) “CPO” means the Central Post Office disclosure facility, which allows municipal issuers to voluntarily file secondary market disclosure documents through the website ([www.DisclosureUSA.org](http://www.DisclosureUSA.org)).

(d) “Dissemination Agent” means any agent designated as such in writing by the Academy and which has filed with the Academy a written acceptance of such designation, and such agent’s successors and assigns.

(e) “Listed Events” shall mean any of the events listed in Section 5(a) of this Agreement.

(f) “MSRB” shall mean the Municipal Securities Rulemaking Board ([www.msrb.org](http://www.msrb.org)).

(g) “National Repository” shall mean any nationally recognized Municipal Securities Information Repository for purposes of the Rule. A current list of the National Repositories can be found at the U.S. Securities and Exchange Commission website ([www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm)).

(h) “1934 Act” shall mean the Securities Exchange Act of 1934, as amended.

(i) “Official Statement” shall mean the final Official Statement for the Bonds dated \_\_\_\_\_, 2006.

(j) “Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

(k) “Repository” shall mean each National Repository and each State Repository.

(l) “Resolution” shall mean the Resolution duly adopted by the Issuer on January 31, 2006, authorizing the issuance, sale and delivery of the Bonds.

(m) “Rule” shall mean Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

(n) “SEC” shall mean the Securities and Exchange Commission.

(o) “State” shall mean the State of Michigan.

(p) “State Repository” shall mean any public or private repository or entity designated by the State of Michigan as a state repository for the purpose of the Rule and recognized as such by the SEC. Currently, the following is the State Repository:

Municipal Advisory Council of Michigan  
1445 First National Building  
660 Woodward Avenue  
Detroit, Michigan 48226-3517  
Tel: (800) 337-0696  
Fax: (313) 963-0943  
[www.macmi.com](http://www.macmi.com)

(q) “tax exempt” shall mean the interest on the Bonds is excluded from gross income for federal tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including alternative minimum tax or environmental tax.

### **SECTION 3. Provision of Annual Reports.**

(a) Each year, the Academy shall provide or cause to be provided, or shall cause the Dissemination Agent to provide or cause to be provided, on or prior to the 180th day after the end of the fiscal year of the Academy commencing with the fiscal year ending June 30, 2006, to each

Repository an Annual Report for the preceding fiscal year which is consistent with the requirements of Section 4 of this Agreement. Currently, the Academy's fiscal year ends on June 30. So long as the SEC continues to authorize the use of the CPO by issuers of municipal securities who make continuing disclosure filings pursuant to the Rule, submission of an Annual Report or other disclosures by the Academy or the Dissemination Agent to the CPO shall fulfill the Academy's obligations under this Section 3. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information as provided in Section 4 of this Agreement; provided, however, that if the audited financial statements of the Academy are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements in a format similar to the financial statements contained in the Official Statement shall be included in the Annual Report.

(b) If the Academy is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Academy shall send a notice in a timely manner to each National Repository or the MSRB, and to the State Repository.

(c) If the Academy's fiscal year changes, the Academy shall send a notice of such change to each National Repository or the MSRB, the Dissemination Agent, and to the State Repository. If such change will result in the Academy's fiscal year ending on a date later than the ending date prior to such change, the Academy shall provide notice of such change to each National Repository or the MSRB, and the State Repository on or prior to the deadline for filing the Annual Report in effect when the Academy operated under its prior fiscal year. Such notice may be provided to each National Repository or the MSRB, and to the State Repository along with the Annual Report, provided that it is filed at or prior to the deadline described above.

**SECTION 4. Content of Annual Reports.** The Academy's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Academy prepared pursuant to State laws, administrative rules and guidelines and pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles as applicable to governmental units such as the Academy.

(b) Additional annual financial information and operating data, if material, and other information pertaining to the Academy of the type set forth in Exhibit A of the Official Statement under the section titles "ENROLLMENT – Table 1: Historical and Projected Enrollment" and "STATE AID PAYMENTS".

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Academy or related public entities, which previously have been provided to each of the Repositories or filed with the SEC. If the document included by specific reference is a final official statement, it must be available from the MSRB. The Academy shall clearly identify each document so included by reference.

#### **SECTION 5. Reporting of Significant Events.**

(a) The Academy covenants to provide, or cause to be provided, notice of the occurrence of any of the following Listed Events with respect to the Bonds, if material, in accordance with the Rule:



1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bondholders;
8. Bond calls;
9. Defeasance;
10. Release, substitution, or sale of property securing repayment of the Bonds; or
11. Rating changes.

(b) Whenever the Academy obtains knowledge of the occurrence of a Listed Event, the Academy shall as soon as possible determine if such event would constitute material information for the Bondholders, provided that any event under Section 5(a)(1), (8), (9), (10) or (11) above (only with respect to any change in any rating on the Bonds) will always be deemed to be material.

(c) The Academy shall promptly cause a notice of the occurrence of a Listed Event, determined to be material in accordance with the Rule, to be filed with the MSRB and with the State Repository, together with a Material Event Notice Cover Sheet. A sample Information Cover Sheet and instructions for filing the Material Event Notice can be found at the MSRB Website ([www.msrb.org](http://www.msrb.org)). In connection with providing a notice of the occurrence of a Listed Event described in Section 5(a)(9) above, the Academy shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

(d) The Academy acknowledges that the “rating changes” referred to above in Section 5(a)(11) of this Agreement may include, without limitation, any change in any rating on the Bonds or other indebtedness for which the Academy is liable.

(e) The Academy acknowledges that it is not required to provide a notice of a Listed Event with respect to credit enhancement when the credit enhancement is added after the primary offering of the Bonds, the Academy does not apply for or participate in obtaining such credit enhancement, and such credit enhancement is not described in the Official Statement.

## **SECTION 6. Termination of Reporting Obligation.**

(a) The Academy’s obligations under this Agreement shall terminate upon the legal defeasance of the Bonds or the prior redemption or payment in full of all of the Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the Academy: (i) receives an opinion of nationally recognized bond counsel, addressed to the Academy, to the effect that those portions of the Rule, which require such provisions of this Agreement, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, amended or modified, or are otherwise deemed to be inapplicable to the

Bonds, as shall be specified in such opinion; and (ii) delivers notice to such effect to the MSRB, and to the State Repository, if any.

**SECTION 7. Dissemination Agent.** The Academy, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Academy pursuant to this Agreement. The initial Dissemination Agent shall be the Trustee. The Trustee may withdraw from this Agreement upon 30 days' notice to the Academy. Notwithstanding anything to the contrary herein, the Dissemination Agent shall not be responsible for any determination as to the adequacy of the accuracy, completeness, contents or format of any Annual Report, and as to the materiality of any event, including whether such event is a Listed Event.

**SECTION 8. Amendment.** Notwithstanding any other provision of this Agreement, this Agreement may be amended, and any provision of this Agreement may be waived to the effect that:

(a) Such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Academy, or the types of business in which the Academy is engaged;

(b) This Agreement as so amended or taking into account such waiver, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, in the opinion of independent legal counsel; and

(c) Such amendment or waiver does not materially impair the interests of the Bondholders, in the opinion of independent legal counsel.

If the amendment or waiver results in a change to the annual financial information required to be included in the Annual Report pursuant to Section 4 of this Agreement, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. If the amendment or waiver involves a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared based on the new accounting principles and those prepared based on the former accounting principles. The comparison should include a qualitative discussion of such differences and the impact of the changes on the presentation of the financial information. To the extent reasonably feasible, the comparison should also be quantitative. A notice of the change in the accounting principles should be sent by the Academy to each National Repository or the MSRB and to the State Repository. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

**SECTION 9. Additional Information.** Nothing in this Agreement shall be deemed to prevent the Academy from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information

in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Academy chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Agreement, the Academy shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of the Academy to comply with any provision of this Agreement, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Academy to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed a Default or an Event of Default under the Resolution or the Bonds, and the sole remedy under this Agreement in the event of any failure of the Academy to comply with the Agreement shall be an action to compel performance.

**SECTION 11. Duties of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Agreement and the Bond Documents, and acts solely as the agent of the Academy hereunder and not as trustee or fiduciary for any other person. Provisions governing the rights, immunities and protections of the Trustee under the Indenture and the other Bond Documents shall apply to the Dissemination Agent so long as the Trustee shall be the Dissemination Agent and are herein incorporated by reference into this Agreement as though fully set forth herein.

**SECTION 12. Beneficiaries.** This Agreement shall inure solely to the benefit of the Academy, the Dissemination Agent, the Participating Underwriters, and the Bondholders and shall create no rights in any other person or entity.

**SECTION 13. Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State. Notwithstanding the foregoing, to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed and interpreted in accordance with such federal securities laws and official interpretations thereof.

EXECUTED and delivered as of the date set forth below:

**MICHIGAN TECHNICAL ACADEMY**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**J.P. MORGAN TRUST COMPANY,  
NATIONAL ASSOCIATION  
as Dissemination Agent**

By: \_\_\_\_\_

Its: \_\_\_\_\_

Dated: \_\_\_\_\_, 2006

**\$6,950,000**

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY  
LIMITED OBLIGATION REVENUE BONDS  
(MICHIGAN TECHNICAL ACADEMY PROJECT), SERIES 2006**

**NatCity<sup>®</sup> Investments, Inc.**

*An Affiliate of* **National City<sup>®</sup> Corporation**

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